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Letter dated 10 May 2010 from the Permanent Representative of the Republic of Korea to the United Nations addressed to the President of the Economic and Social Council

Please find enclosed the report entitled "Implementing the internationally agreed goals and commitments in regard to gender equality and empowerment of women" for the annual ministerial review to be held during the high-level segment of the substantive session of 2010 of the Economic and Social Council (see annex).

My Government would be highly appreciative if you would circulate the aforementioned report as a document of the Council, under item 2 (c) of the provisional agenda.

(Signed) Park In-kook
Ambassador
Permanent Representative

* E/2010/1

**Annex to the letter dated 10 May 2010 from the Permanent
Representative of the Republic of Korea to the United Nations
addressed to the President of the Economic and Social Council**

**Voluntary national presentation of the Republic of Korea:
implementing the internationally agreed goals and commitments in
regard to gender equality and empowerment of women**

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Executive summary

By joining the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) on 1 January 2010, the Republic of Korea has successfully transformed itself from a partner country into a donor country. The Framework Act on International Development Cooperation was subsequently legislated. It puts emphasis on the promotion of women's rights and gender equality, reflecting the strong will of the Korean Government to implement the internationally agreed commitments in regard to gender equality and the empowerment of women as specified in the Beijing Platform for Action and the Millennium Development Goals.

In explaining how the Republic of Korea has been able to evolve from a poverty-stricken country to a donor country, it is necessary to understand the significance of women in the socio-economic development of the country. This is in line with Goal 3, according to which the promotion of gender equality and women's empowerment is a necessary condition to eliminate poverty. The Republic of Korea has taken determined steps to raise the political and economic capacities of women by incorporating them into the progress of socio-economic development and by reflecting their needs and interests in national policy planning. As a result, the representation of women has improved, women have been empowered through extended participation in economic activities and their human rights are increasingly better ensured. In particular, women's labour participation has made it possible to break the cycle of poverty. The Republic of Korea is therefore willing to share and utilize its extensive experience in aligning socio-economic development with the promotion of gender equality and women's empowerment it has accumulated in the course of transforming from one of the poorest countries in the world into a donor country. In doing so, the Republic of Korea will contribute to the achievement of the Millennium Development Goals aiming to eradicate poverty.

I. The Republic of Korea's success in economic and social development

A. Transformation into a donor country

1. The Republic of Korea became the twenty-fourth member of the Development Assistance Committee of OECD on 1 January 2010. In the course of building its economy, the Republic of Korea relied on assistance from the international community, receiving a total of \$12.8 billion in aid.¹ Emergency relief helped the Korean people recover from the aftermath of the Korean War (1950-1953) and rebuild the country. In 1960, with the enactment of the Foreign Investment Promotion Act, the Republic of Korea started to actively attract foreign investments from developed countries and effectively utilized foreign resources through the execution of its Five-year Economic Development Plan. At the same time, aid in the form of grants to the Republic of Korea began to decrease and was increasingly replaced by loans.

¹ Introduction on Korea's official development assistance, <http://www.odakorea.go.kr/html/intro/history.php?&bid=a31>, retrieved on 5 April 2010.

2. From 1965 to 1980, while it was known as a partner country, the Republic of Korea took steps to enhance its contribution to international society. Using its own resources, the Korean Government initiated a training programme for developing countries in 1965. The Republic of Korea also began to dispatch experts in 1967, provided equipment and resources assistance in 1977 and invited leading figures from developing countries to deliver education programmes in 1985. Throughout the process, the Republic of Korea gradually expanded self-funded assistance. In 1995, the Republic of Korea was removed from the World Bank's lending list and this marked the end of its history as a partner country. This successful development experience of the Republic of Korea is offering motivation to many developing countries which wish to reaffirm their commitment to building their national economy.

B. Official development assistance policy directions and implementation system

3. In December 2009, the National Assembly passed the Framework Act on International Development Cooperation, which was promulgated in January 2010.² The objective of the Act is to enhance the consistency and effectiveness of the Republic of Korea's official development assistance (ODA) policy, and to contribute to the co-prosperity of humankind and the promotion of international peace.

4. Article 3 of the Act prescribes basic provisions for poverty eradication in developing countries, for improving children and women's rights, for achieving gender equality, for the realization of sustainable development and humanitarianism, for expanding economic cooperation with partner countries and for the promotion of international peace and prosperity. The fact that women's rights and gender equality are included in the Act is a manifestation of the Korean Government's strong will to implement the internationally agreed commitments in regard to gender equality and the empowerment of women as specified in the Beijing Platform for Action and the Millennium Development Goals.

5. The Republic of Korea's structure of ODA policy implementation is based on two main pillars — grant aids administrated by the Ministry of Foreign Affairs and Trade and concessional loans overseen by the Ministry of Strategy and Finance. Grants, composed of grant aid and technical cooperation programmes, are implemented by the Korea International Cooperation Agency under the policy guidelines of the Ministry of Foreign Affairs and Trade. Concessional loans are managed by the Economic Development Cooperation Fund, administered by the Export-Import Bank of Korea under the supervision of the Ministry of Strategy and Finance.

6. The Committee for International Development Cooperation was established in January 2006 under the supervision of the Prime Minister's Office. The primary function of the Committee is to assess major development cooperation policies, midterm ODA plans, annual policy implementation plans and ODA programme performance, as well as to deliberate and coordinate overseas emergency disaster relief programmes and non-governmental organization support programmes.³

² The Act will enter into force six months after the date of its promulgation.

³ ODA Korea, http://www.odakorea.go.kr/html/intro/propulsion_2.php?&bid=a42, retrieved on 20 April 2010.

7. In 2009, the Korea International Cooperation Agency also introduced a gender-sensitive officer system to ensure that gender perspectives are well-reflected in the implementation of ODA.⁴

II. Socio-economic development, gender quality and women's empowerment

8. The Republic of Korea's gross domestic product (GDP) increased rapidly, at an annual average rate of 6 per cent from 1975 to 2005.⁵ The nation's per capita GDP has also risen sharply over the decades, from \$251 in 1970 to \$19,153 in 2008.⁶ Due to its outstanding economic development, the Republic of Korea has been able to shed its status as one of the world's poorest countries in the 1950s, and has become a donor and a Development Assistance Committee member.

9. It should be noted that women played a significant role in the Republic of Korea's unprecedented economic development. The Republic of Korea has taken steps to develop the political and economic capacities of women by incorporating them into the process of socio-economic development, reflecting their needs and interest in national planning and establishing a systemic national machinery committed to advancing the status of women.

A. National plans for the promotion of gender equality

10. One of the most important tasks of economic and social development is to build women's capacity so that they can function as agents of development and not become mere beneficiaries. In order to build their capacity, it is vital to widely reflect their needs and interests in national plans for economic and social development.

11. Bearing that in mind, the Republic of Korea expanded the utilization of women resources during the 1960s, the industrialization period. In the 1980s, the Korean Government started to incorporate women into various development issues, based on a strong belief that they should form an integral part of national development.⁷ Women's issues were included for the first time in the sixth Five-year Economic and Social Development Plan (1987-1991), which laid out concrete policies aimed at promoting the utilization of women resources, building their capacity and improving welfare schemes for them.⁸

⁴ Coinciding with the structural reorganization of the Korea International Cooperation Agency on 31 December 2009, a gender-sensitive officer system was established to ensure gender mainstreaming in the Agency's development assistance programmes and to promote gender equality through ODA. The system comprises seven officers in the five specific fields of policy planning, budgeting, execution, evaluation and monitoring, as well as statistics and research.

⁵ United Nations Development Programme, *Human Development Report 2007/2008* (UNDP, 2007), p. 277.

⁶ Bank of Korea, unpublished data.

⁷ Ministry of Political Affairs (II) (1989), *Convention on the Elimination of All Forms of Discrimination against Women: First and Second Periodic Reports of the Republic of Korea*, Ministry of Political Affairs (II), p. 81.

⁸ Ministry of Health and Social Affairs (1987), *Sixth Five-year Economic and Social Development Plan: Health and Social Sector Plans (1987-1991)*, Ministry of Health and Social Affairs.

12. Notably, the Republic of Korea's women policies, aligned with national-level economic and social development planning, were heavily affected by the international agenda dedicated to advancing women's status and realizing gender equality. In 1983, the Republic of Korea signed the Convention on the Elimination of All Forms of Discrimination against Women and then ratified the Convention one year later, in 1984. With the ratification, the Convention came into force with the same effect as domestic law, bringing forth a great turnaround in raising public awareness on gender equality and women's development.⁹ Along with the sixth Five-year Economic and Social Development Plan, the seventh Plan (1992-1996) also addressed women's issues as a core policy for economic advancement.

13. The Women's Development Act was legislated in 1995 with the aim of promoting gender equality and fostering women's development in all realms of society, including the political, economic and social sectors. Under the Act, a basic plan was drawn up every five years, and the Women's Development Fund was set up to implement various projects aimed at enhancing women's status and to support the construction and operation of women's facilities.

14. The First Basic Plan for Women's Policies, covering the period between 1998 and 2002, can be defined as a phase for building the institutional framework which paved the way for the abolishment of some major gender-discriminatory laws and practices, the expansion of women's participation in policymaking and the enhancement of maternal protection. The objectives of the second Plan, covering the period between 2003 and 2007, included efforts to instil a gender-equality perspective in all Government policies by introducing gender mainstreaming in policymaking. The Plan expanded the institutional infrastructure for gender-responsive budgeting, gender-sensitive statistics and gender impact assessments.

B. National machinery for the advancement of the status of women

15. The Republic of Korea has made efforts to strengthen its institutional mechanisms for the efficient management of gender-equality issues. In terms of governmental organization, the Ministry of Gender Equality was established to oversee women's policies in a more holistic manner. Inter-ministerial coordination became more effective through the founding of the Women's Policy Coordination Committee in 2003, and the Woman's Affairs Committee was created to deal with women's issues in the legislative branch.

16. The Ministry of Gender Equality was established in January 2001 as the national machinery responsible for planning and integrating Government policies for women. The Minister, as a member of the cabinet, advises the President on women's affairs and introduces a gender perspective into major policies at the highest level. The Ministry of Gender Equality was preceded by the Ministry of Political Affairs (II) and the Presidential Commission on Women's Affairs. Following Government reorganization, the Ministry was restructured into the Ministry of Gender Equality and Family in 2010. The Ministry is currently charged with formulating and coordinating gender-equality policies in a holistic manner,

⁹ Ministry of Political Affairs (II) (1989), *Convention on the Elimination of All Forms of Discrimination against Women: First and Second Periodic Reports of the Republic of Korea*, Ministry of Political Affairs (II), pp. 39-43.

including women's social participation, gender impact assessment and analysis, women resources development and utilization, family and multicultural family support, prevention of sexual and domestic violence and protection for victims of violence.

17. In 2003, the Women's Policy Coordination Committee was founded under the Office of the Prime Minister in accordance with article 11 of the Women's Development Act. Chaired by the Prime Minister and vice-chaired by the Minister of Gender Equality and Family, the Committee is responsible for bringing together the broad diversity of women-related policies and programmes administered by Government ministries and for deliberating on gender equality agendas.¹⁰

18. Under the Women's Development Act, Gender Policy Coordinator positions have also been instituted in central Government ministries to give gender mainstreaming a head start. The Act requires each ministry to designate an assistant minister or an equivalent public official as Gender Policy Coordinator, who is tasked with planning and implementing effective policies for women. They are also responsible for coordinating yearly action plans to implement the Basic Women's Development Plan, monitoring the progress in implementation, conducting gender impact analyses and assessments and raising the status of female public officials.

19. In addition, the Korean Women's Development Institute and the Korean Institute of Gender Equality Promotion and Education were established in 1983 and 2003, respectively, to conduct research on women's issues and to provide education on gender equality.

20. With a Government ministry that oversees the country's overall gender-equality policies, a research institute that conducts policy research on gender agendas and an educational institute that provides gender-equality education for public officials, the Republic of Korea has established a three-dimensional national system for the advancement of the status of women.

C. Measures for the promotion of women's representation

21. Improving women's representation in the public sector is a necessary requirement for the realization of gender equality and the empowerment of women. The United Nations and most international aid organizations have thus set the extent of women's political representation as a core criterion for assessing the degree of achievement of Goal 3.

22. The Korean Government has been implementing various specific legal and institutional measures to expand the participation of women in society. In politics, the Political Parties Act has been amended so that, for general elections and local council elections, political parties are required to include women in 50 per cent or more of their nominations for the proportional seats. It also recommends 30 per cent or more of the candidates running for election in local districts to be women. As a result, the ratio of woman parliamentarians rose considerably, from 5.9 per cent during the sixteenth National Assembly (2000-2004) to 13.7 per cent during the eighteenth National Assembly (2008-2012).

¹⁰ Kim, W. H., Y. J. Baek and B. S. Park (2008), *Implementation Structures of Gender Policies in 8 Countries*, Korean Women's Development Institute.

23. A Participation Target System is in place to raise women's representation in Government advisory committees. A Recruitment Target System is also in operation and will remain in effect until 2011, with a view to increasing the number of female public officials in rank four managerial positions (director level) or higher in central Government ministries. The two systems are expected to raise the proportion of women in Government advisory committees to 40 per cent by 2012, and the ratio of rank four female public officials to 10 per cent by 2011, representing an approximately twofold increase compared with 2006.

24. The Korean Government is also committed to improving gender-imbalanced workforce structures in which women traditionally have been underrepresented, through active measures such as the Recruitment Target System for Women, the Gender Equality Recruitment Initiative in Public Service, the Recruitment Target System for Women Professors, the Appointment Target System for School Principals and Vice-principals and the Recruitment Target System for Women in Science and Technology.

D. Institutional support for women's economic activities

25. Women's participation in the labour market is regarded as a key means of eliminating poverty. Once women take part in income production activities, they not only generate their own financial resources, but also gain economic empowerment in both the private and the public spheres. The Republic of Korea has endeavoured to facilitate women's economic participation in the course of developing its economy and society. In recent years, efforts are being concentrated on raising the labour share of women by fostering a female-friendly labour environment.

26. During the rapid economic growth period spanning the 1960s to the 1980s, although women's participation in the agriculture, forestry and fishery sectors declined, their employment in the manufacturing and service sectors saw a sharp rise.¹¹ In 1963, the proportion of women working in the agriculture, forestry and fishery sectors reached 23.9 per cent. By 1985, the ratio had dropped to 8.9 per cent.¹² During the same period, the share of women employed in manufacturing increased from 2.4 per cent to 9 per cent. Women employed in indirect social capital and other service industries represented 19.9 per cent of all working women in 1985, up by more than two-fold compared with the 8.5 per cent of 1963.

27. The increase in women's economic participation led to a rise in household income levels, which again contributed to breaking the cycle of poverty. Even so, women often experienced gender discrimination in their workplace, mainly owing to the social prejudice that existed against working women. The Korean Government addressed this problem early on by fostering a social environment that eliminates employment-related discrimination and by providing legal and institutional infrastructure.

¹¹ Ministry of Health and Social Affairs (1987), *Sixth Five-year Economic and Social Development Plan: Health and Social Sector Plans (1987-1991)*, Ministry of Health and Social Affairs, p. 326.

¹² Korean Statistical Information Service, *Recomposition of data from the Survey on the Economically Active Population*, <http://kosis.kr/>, retrieved on 28 April 2010.

28. In 1987, the Equal Employment Act was established to secure equal opportunity and treatment for women in employment, ensure maternity protection, develop women's vocational capacity and enhance women's welfare. In 1991, the Infant Care Act was introduced, pursuant to which the Government concentrated its budget investments in expanding childcare facilities and subsidizing full childcare allowances for households of incomes under certain poverty levels. In December 1991, the Republic of Korea joined the International Labor Organization, stepping up its efforts to protect women's labour rights.

29. In the years following 2000, women's economic participation experienced greater expansion and, accordingly, the need to provide an institutional basis for the reconciliation of work and family life increased significantly. In response to the economic and social changes of the times, the Equal Employment Act was amended and, in 2007, became the Act on Gender Equality in Employment and Support for Work-Family Reconciliation.

30. The Korean Government also encourages the economic independence of women by supporting those who wish to set up their own businesses, mainly through the Business Start-up Subsidy Programmes for Women Engineers and the Business Start-up Subsidy Programmes for Female Heads of Household.¹³ The former programme, conceived to enable women with certified technical skills to start their own business, received 10 billion Korean won in funding from the Women's Development Fund from 2003 to 2006. The latter programme, which provided loans to female heads of household to start their own business, was funded with 3 billion Korean won (equivalent to \$2.6 million) drawn from the Women's Development Fund from 2004 to 2006. Both programmes, supported by the Ministry of Gender Equality and Family, were aimed at economically empowering low-income women and at enhancing their capacity to grow their way out of poverty.

III. Utilizing the Republic of Korea's experience in the promotion of gender equality and empowerment of women

31. Drawing from its first-hand experience in poverty eradication and women's empowerment gained over the course of its economic and social development, the Republic of Korea is willing to help women in developing countries to play an active role in socio-economic development and thus not be excluded from national development processes. The Republic of Korea is also committed to working together for the achievement of the international community's development goals of poverty eradication and sustainable growth.

32. Based on the understanding that the realization of gender equality depends heavily on the economic independence of women, the Republic of Korea has also prepared various training sessions aimed at women's economic empowerment. Training programmes on business start-ups and employment have been of particular assistance in expanding women's economic participation, building their economic capacity and, ultimately, moving closer to gender equality. In terms of promoting women's rights, assistive measures have been taken to raise public awareness on

¹³ Ministry of Gender Equality and Family (2005), Sixth Periodic Report on Korea's Implementation of the Convention on the Elimination of All Forms of Discrimination against Women, Ministry of Gender Equality and Family, p. 42.

respecting women's rights and reflect related issues in policy planning. In addition, the number of degree programmes and long-term training programmes for women in developing countries has increased, with the aim of developing qualified women resources. In all these efforts, basic human development for the achievement of gender equality remains at the heart of the Republic of Korea's development assistance activities.

33. The Republic of Korea also seeks to contribute to the Millennium Development Goals by sharing its know-how on women's vocational capacity-building as a foundation for the promotion of women's economic participation and capacity enhancement. In today's information society, information and communications technology (ICT) is opening new possibilities for the promotion of gender equality and women's empowerment. Through ICT education and training, women can transform themselves into software engineers, knowledge workers and social entrepreneurs. In this sense, ICT brings changes to the traditional role division between women and men, and serves as a catalyst for women to assume a central role in development.¹⁴

34. Among the diversity of development programmes currently in operation, the programmes described below provide linkages with areas in which the Republic of Korea possesses expertise, namely vocational training and ICT.

35. First, targeting the women of the Asia-Pacific Economic Cooperation (APEC) Member Economies, the Republic of Korea runs an ICT training programme for public officials in charge of ICT or gender policies, and for education and training personnel. Under the programme, Korean experts are assigned to visit a Member Economy to deliver training on ICT and female leadership. Between 2003 and 2009, a total of 165 women from 17 APEC members completed the training programme in the Republic of Korea. From 2007 to 2009, a survey on the demand for women's training was conducted in Indonesia, which formed the basis for the development of a customized education programme that benefited 53 Indonesian public officials responsible for gender policies and ICT.

36. Such training programmes cover a range of subject matter, including development trends in global ICT, the Republic of Korea's public informatization policies, benchmarking of advanced ICT and project practices, and women's capacity-building. The project practice course offers a particularly unique experience in that trainees are able to plan ICT projects tailored to their own country's needs. For example, participants from Papua New Guinea developed a project on an emergency call centre for women, in response to the country's lack of infrastructure to support women victims of domestic and other forms of violence. The project practice provided significant implications for the development of adequate assistance and relief systems for women.

37. The ICT training programme for APEC Member Economies has drawn a favourable response from participants, with a minimum of 90 per cent of trainees on average having expressed high satisfaction. Among many APEC partners, the programme is evaluated as a best practice for women's empowerment. The Korean

¹⁴ Gurumurthy, Anita, with Parminder Jeet Singh and Anja Kovacs (2009), *Recasting the Beijing Platform for Action through the Information Society Lens: A Conceptual and Action Framework*, <http://www.unapcict.org/ecohub/resources/recasting-the-beijing-platform-for-action-through-the-information-society-lens-a-conceptual-and-action-framework>, retrieved on 19 April 2010.

Government has accordingly expanded the scope of the programme for the year 2010.

38. Second, an E-business Education and Training Programme was newly launched this year to invite women managers and policymakers from developing countries to help them develop their understanding of and build capacity for e-business. Rather than simply delivering theoretical knowledge, the programme is focused on guiding women leaders towards establishing their own e-marketing and business strategies, planning and implementing actual e-business models and acquiring know-how on ways to build an e-business environment. The ultimate objective is to promote women's economic participation in a practical fashion and empower them economically.

39. Third, another new initiative for 2010 is the Vocational Capacity-Building Programme for women in developing countries. Public officials in charge of women's employment and business start-up policies and experts in vocational capacity-building in non-governmental and other organizations are invited to engage in a process of developing adequate occupations for women in their home countries and devising a systemic national approach to women resources development. The aim is to empower policymakers and experts so that they may effectively facilitate the employment and business start-ups of women, and to raise awareness of female capacity through leadership education. By providing education and training on development to site experts and policymakers, the Republic of Korea is expanding cooperation with various non-governmental organizations in partner countries rather than confining the training partnership to the Government level. The budget allocated to carry out these two newly launched programmes amounts to 9 million Korean won (equivalent to \$0.8 million).

IV. Conclusion

40. The Republic of Korea's rapid economic and social development, often referred to as the "Miracle on the Han River", is widely recognized by the international community as a good example of development. It is noteworthy that this process of socio-economic development did not exclude women, which resulted in corresponding progress in women's development.

41. As the latest member to join the OECD Development Assistance Committee, the Korean Government is carrying out mid- to long-term ODA programmes under a comprehensive strategy that envisions advancement in all aspects of ODA policies, aid volume, implementation system, partnership-building and evaluation system. The Republic of Korea clearly recognizes the importance of cross-cutting issues, such as gender equality and the environment, and is developing tools to strengthen gender mainstreaming in ODA implementation as well as to plan effective gender-sensitive aid programmes.

42. The Republic of Korea is eager to share its development experience as a way of enhancing both the socio-economic participation and capacity-building of women in the developing parts of the world.

43. Therefore, the Republic of Korea will make efforts to formulate strategic assistance programmes in areas of comparative strength, and at the same time, commit to achieving internationally agreed development goals, including the Millennium Development Goals.

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Economic and environmental questions: human settlements

Coordinated implementation of the Habitat Agenda**Report of the Secretary-General***Summary*

The present report highlights some of the strategic actions that the United Nations Human Settlements Programme (UN-Habitat) has taken to become a catalyst in the coordinated implementation of the Habitat Agenda. This has entailed a shift towards enabling, empowering and entrusting existing and new partners to partake in decision-making, priority-setting and implementation. This approach was used to establish and launch the World Urban Campaign, which spearheads the efforts of UN-Habitat to work closely with Habitat Agenda partners to elevate the importance accorded to sustainable urbanization in public policy and in public and private investment. Inspired by the World Urban Forum, the World Urban Campaign is coordinated by UN-Habitat but wholly owned by Habitat Agenda partners. In the space of less than a year, over 55 partners representing networks of major stakeholder groups, United Nations organizations and the business sector agreed on a set of goals, principles and priority actions to be completed in time for the launch of the campaign at the fifth session of the World Urban Forum.

Other highlights of the reporting period include landmark decisions by the Governing Council of UN-Habitat at its twenty-second session, including a proposal for the General Assembly to consider the convening, in 2016, of a United Nations Conference on Housing and Sustainable Urban Development (Habitat III); World Habitat Day celebrations in Washington, D.C.; the coming of age of the World Urban Forum; and progress in forging innovative financing options for affordable housing.

The report concludes with two recommendations based on the growing recognition that sustainable urbanization is key to sustainable development in a rapidly urbanizing world.

* E/2010/100.

I. Introduction

1. The present report has been prepared pursuant to paragraph (c) of Economic and Social Council decision 2009/238.

II. Decisions of the Governing Council of the United Nations Human Settlements Programme

2. A key decision by the Governing Council of the United Nations Human Settlements Programme (UN-Habitat) at its twenty-second session was to recommend to the General Assembly that the Assembly consider convening in 2016 a United Nations Conference on Housing and Sustainable Urban Development (Habitat III).

3. Two major arguments underscore the rationale behind this recommendation. The first is the changing nature of social, economic and environmental challenges caused by rapid urbanization. On the social front, whereas poverty has heretofore been considered largely as a rural phenomenon, one of the major consequences of the demographic shift to cities is the urbanization of poverty and deprivation. Similarly, on the economic front, the ability of nations to engage in robust economic development and to provide sustainable livelihoods and reduce poverty depends increasingly on two factors, namely, how well cities are managed, and how sectoral policies for health, education, welfare, safety, housing and basic services are brought to bear within an integrated and spatially coherent urban development framework.

4. The second argument lies in the increasingly critical role and contribution of cities to environmental sustainability at all levels, including the global level. With just over half of the world's population living in cities, urban areas already consume 80 per cent of global energy, generate an equal proportion of all waste and contribute directly to more than 60 per cent of greenhouse gas emissions. This argument led to another important resolution of the Governing Council, entitled "Cities and climate change". The Council acknowledged that cities are major contributors as well as primary victims of climate change and recognized the important role and contribution of cities in devising and implementing climate change mitigation and adaptation strategies.

5. The Governing Council further recognized that both the short-term impact of the global financial crisis and the medium to longer term impacts of climate change on cities were likely to have substantial consequences for the attainment of the Millennium Development Goals. The Council noted that one of the consequences of the financial crisis was the reduced capacity of local authorities to extend and provide basic services and that the urban poor, especially women, were particularly vulnerable to the negative impacts of climate change on housing and basic infrastructure and services.

6. Similar concerns were reflected in other resolutions adopted by the Governing Council on, inter alia, affordable housing finance, strengthening the development of urban young people, and guidelines on access to basic services for all. A common thread throughout these resolutions is the need for new policies, new strategies and new partnerships at the national and local levels to ensure more sustainable

urbanization, as well as changes in the focus and priorities of international cooperation.

7. This was notably the case with resolution 22/8, in which the Council requested UN-Habitat to develop, in coordination with the Habitat Agenda partners, training instruments to assist interested Governments to adapt the guidelines on access to basic services to their national context, and to prepare a global assessment report. Representatives of Member States, United Nations organizations and stakeholders met during the fifth session of the World Urban Forum in Rio de Janeiro, Brazil, to review the complementarity of the guidelines with those on decentralization and to engage in a consultative process for the global assessment report.

8. The guidelines on access to basic services for all were incorporated into the list of tools for the implementation of the social protection floor initiative of the United Nations System Chief Executives Board for Coordination to promote the social floor agenda in country activities and to stimulate inter-agency collaboration through normative and operational country support activities.

III. Responses at the global level

World Habitat Day

9. The global observance of World Habitat Day was celebrated in Washington, D.C., in October 2009. The observance comprised seven days of affiliated events organized by non-State actors in what became "world habitat week". This event marked a major milestone in terms of elevating the importance and visibility accorded to the Habitat Agenda and, indeed, to sustainable urbanization, by a country of the global North. In a video message, the President of the United States of America acknowledged that no country could meet all the challenges of sustainable urbanization alone and stressed the necessity to work with the United Nations to meet the needs of the present while securing the future.

World Urban Forum

10. The coming of age of the World Urban Forum was, without a doubt, the highlight of the reporting period. Over 10,600 people from 150 countries representing all major groups congregated in Rio de Janeiro for the fifth session of the Forum. Heads of Government, including the Presidents of Brazil and Uganda, the Prime Minister of Haiti and the Vice-Presidents of the Philippines and Spain, opened the Forum.

11. In a trend that first emerged at the fourth session of the World Urban Forum, in Nanjing, China, Heads of State and their ministers, parliamentarians and mayors, young people and women, professionals and slum-dwellers, the media and the private sector engaged with one another in a true meeting of minds and in extensive dialogue and exchange to learn from each other's experience in forging a more sustainable urban future.

12. The open and often frank debate on the main theme, "Bridging the urban divide", produced a fresh range of ideas, policy options and promising practices in the realization of the ideals and principles enshrined in the Habitat Agenda. High on the agenda was climate change, with the huge impacts of disasters on cities and the need to reduce the unsustainable footprint of cities.

13. The theme “Bridging the urban divide” proved to be both timely and pertinent to the concerns of citizens and decision makers from the North and the South. Citizenship and the “right to the city” emerged as recurrent themes in what appeared to be a growing consensus and concern for more equitable and inclusive development.

14. Indeed, the non-legislative format of the Forum reaffirmed the event as a unique vehicle for international exchange and cooperation at every level and, in particular, across social and economic divides. Government ministers from many countries met with representatives of civil society to engage in frank and open discussions on the problems of a rapidly urbanizing world. These discussions provided unparalleled opportunities to discuss new policies, innovative strategies, cutting-edge business models and emerging modalities of cooperation including North-South, South-South and city-to-city cooperation. The World Urban Youth Assembly and Gender Equality Action Assembly were held for two days before the opening of the Forum. They now form an integral part of the World Urban Forum in compliance with UN-Habitat Governing Council resolutions 22/4 and 22/7 respectively.

15. The Government of Bahrain offered to host the sixth session of the World Urban Forum, to be held in 2012.

World Urban Campaign

16. A highlight of the Forum was the launch of the World Urban Campaign, designed to elevate to a new level the drive by UN-Habitat and its partners for better, smarter, greener and more equitable cities. It was launched by the Executive Director of UN-Habitat in what underscores one of the main objectives of the medium-term strategic and institutional plan of UN-Habitat: that of forging effective partnerships between and with the public, private and civil society sectors to enable UN-Habitat to fulfil a truly catalytic role.

17. In the months preceding the launch of the World Urban Campaign, a steering committee of major partners and groups was established on the basis of shared ownership and common vision and mission. More than 50 partners representing global and thematic networks of cities, professionals, civil society and the private sector committed themselves to a free exchange of knowledge, expertise and experience in support of sustainable urbanization. In addition, five United Nations organizations (the International Labour Organization (ILO), the World Health Organization (WHO), the Universal Postal Union, the secretariat of the International Strategy for Disaster Reduction and the International Telecommunication Union) are playing an active role in the Campaign by associating their respective campaigns on decent work and livelihoods, on smart cities, on healthy cities, on addressing the world and an address for everyone, and on resilient cities to the World Urban Campaign.

18. Representatives of national and local governments, grass-roots organizations, professionals, trade unions, the media, the business community and women signed a compact in support of the World Urban Campaign to work together as one in elevating the importance accorded to sustainable urbanization in public policy and public and private investment.

19. A key activity of the World Urban Campaign is its 100 Cities Initiative, which builds on the concept of best practices but focuses on the sharing, exchange and transfer of lessons learned from experience. The initiative will include a 100 Cities Summit, to take place one year after the fifth session of the World Urban Forum, in Alicante, Spain.

20. By virtue of its membership, which includes all of the key stakeholders participating in the World Urban Forum, the World Urban Campaign is also poised to serve as an informal intersessional mechanism, whereby partners can capitalize on the wealth of the actionable ideas generated at the Forum, and also help partners to better prepare for future sessions of the Forum.

Shanghai World Exposition

21. The Shanghai World Exposition, which will be held from May to October 2010, is without a doubt the single biggest contribution to the mainstreaming of the Habitat Agenda and of the sustainable urban development agenda in recent history. UN-Habitat assumed its leadership role in coordinating the participation, presence and inputs of all interested United Nations agencies, funds and programmes for the United Nations pavilion at the Shanghai Exposition.

22. Under the banner of "Better City Better Life", the entire Exposition and the United Nations pavilion is dedicated to ideas, experiences, innovations, tools, technologies, know-how and forms of expression that portray a positive vision of an urbanizing world, which is one of the key objectives of the World Urban Campaign. The Exposition is expected to attract 70 million visitors, many of whom will be very interested in the United Nations pavilion and the work of the Organization.

Global parliamentarians

23. The Global Parliamentarians on Habitat organized a number of regional and global conferences and events to sensitize parliamentarians on their role as law makers in adopting relevant laws and policies to promote pro-poor housing and slum upgrading, including access to basic services.

24. Global Parliamentarians on Habitat organized a three-day conference on sustainable urbanization in Rio de Janeiro just before the World Urban Forum. The focus of the conference was on climate change, urban-rural linkages and the participation of the population in city life. The deliberations were summarized in the form of a declaration.

25. During the World Urban Forum, a round-table meeting of parliamentarians was organized by Global Parliamentarians on Habitat on climate change and human settlements. Panellists representing all major regions of the world took stock of policies and legislation that are being implemented in their respective countries with the aim of mitigating the impact of climate change on human settlements.

26. The Global Parliamentarians on Habitat further highlighted their support for the World Urban Campaign and signed a compact to that effect.

Associations of local authorities

27. Collaboration with associations of local authorities was also consolidated during the reporting period. In February 2009, UN-Habitat jointly convened a

meeting of mayors of African capitals and major cities. The meeting addressed the challenges facing such cities, which are bearing the brunt of rapid urbanization.

28. Support to the global observatory on local democracy continued with UN-Habitat providing financial and technical inputs. Members of United Cities and Local Governments participated in several technical forums organized by UN-Habitat, and technical backstopping was provided to the summit of African local authorities held in Marrakech, Morocco, in December 2009. Similarly, a joint initiative is being executed with the Commonwealth Local Government Forum involving the provision of technical support to local authorities in Southern Africa to monitor progress in improving systems of local governance.

29. The three global associations of local authorities played an active role in the World Urban Campaign. United Cities and Local Governments, Metropolis and ICLEI-Local Governments for Sustainability, are members of the World Urban Campaign steering committee and are working collaboratively with each other and with other networks and entities from the private, professional and civil society sectors to elevate the importance of sustainable urbanization in public policy.

Habitat Professionals Forum

30. The Habitat Professionals Forum and its constituent members, including the International Union of Architects, the International Federation of Surveyors and the International Society of City and Regional Planners, played a very active role in the preparatory phase of the launch of the World Urban Campaign. The combined membership of the Habitat Professionals Forum is estimated in the tens of thousands of people who, for the most part, play a significant role in shaping our cities and communities and in advising local decision makers.

IV. Responses at the regional level

Regional ministerial conferences

31. Standing conferences of Ministers of Housing and Urban Development in various regions have also continued to serve as effective vehicles for exchange of experiences on implementing the urban agenda. These conferences are also promoting a shared concern about urgent global issues such as urban sustainability and achieving the Millennium Development Goals. In July 2009, the eighteenth Assembly of Ministers and Senior Authorities for Housing and Town Planning from Latin America and the Caribbean (MINURVI), convened in Montego Bay, Jamaica. Among other agenda items, the Assembly addressed the issues of decent housing and universal access to basic urban services as critical elements to the well-being of urban populations and as key strategies for urban poverty reduction. The final declaration highlighted the decline of available resources for housing and urban development as a consequence of the current economic crisis. In recognition of the growing and debilitating impacts of climate change and natural disasters on the region, the meeting also recommended the preparation of natural disaster risk and vulnerability maps as collective measures for disaster prevention and mitigation. The Assembly also supported the preparation by UN-Habitat of the first regional report on the state of Latin American and Caribbean cities.

32. In the African region, consultations were held with the secretariat of the African Ministerial Conference on Housing and Urban Development on launching the monitoring and review framework and tool in support of the Millennium Development Goals related to human settlements. The Government of Mali has expressed an interest in hosting the next Ministerial meeting.

33. The Asia-Pacific Ministerial Conference on Housing and Urban Development has been following up on the action plan adopted at its second meeting, held in Tehran. Arrangements are being finalized for convening the third meeting, to be hosted by the Government of Indonesia, in Solo, in June 2010. That Conference will address the theme of "Empowering communities for sustainable urbanization" and aims to develop a knowledge hub on sustainable human settlement development in the Asia and the Pacific region.

34. In collaboration with the African Ministerial Conference on Water, UN-Habitat participated in the preparation of the African regional position paper on water and sanitation and the organization of the Africa Day session at the fifth World Water Forum, held in Istanbul, Turkey, during which the document was launched. Support was also extended to the preparatory process and the organization of the second Africa Water Week under the auspices of the African Ministerial Council on Water in Johannesburg, South Africa, in November 2009.

Regional development banks

35. Partnership with the African Development Bank under the Water for African Cities Programme resulted in critical pre-investment capacity enhancement for the Zanzibar, United Republic of Tanzania, and Harar, Ethiopia, water and sanitation authorities. In Kenya, UN-Habitat's pre-investment capacity-building activities helped to fast track approval of a \$71.15 million loan provided by the Bank. In Mali, the demonstration of appropriate sanitation facilities in Niono to complement a \$15.72 million project by the Bank has yielded positive results.

36. Under the Lake Victoria Region Water and Sanitation Initiative, a project formulation study, funded by the African Water Facility, to scale up the programme to another 15 towns in 5 countries is nearing completion. A total funding package of over \$150 million is envisaged with the African Development Bank to finance follow-up investments. A new partnership with the European Investment Bank is laying the groundwork for increasing investment flows to the larger cities around Lake Victoria.

37. In Asia, UN-Habitat has continued to provide technical assistance under a \$10 million grant fund to enable local authorities to access up to \$1 billion in follow-up investment by the Asian Development Bank. The joint annual consultation meeting, held in Manila in February 2010, identified new opportunities for collaboration in projects and knowledge management.

38. Arrangements have been put into place with the Inter-American Development Bank under the Water and Sanitation Programme for Latin American and Caribbean Cities. In the Plurinational State of Bolivia, UN-Habitat initiated the first steps in 2009 towards a proposed project on water in peri-urban areas by the Inter-American Development Bank in the cities of La Paz, Cochabamba, Santa Cruz and Tarija. Similar collaborative projects are being developed in Colombia and El Salvador.

V. Responses at the inter-agency level

Armed violence Prevention Programme

39. The Armed Violence Prevention Project was signed in 2009 with the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP) Bureau for Crisis Prevention and Recovery, the United Nations Office on Drugs and Crime, the Office for Disarmament Affairs of the Secretariat, WHO and UN-Habitat for reducing threats related to arms availability and violence. This is a proactive partnership of UN-Habitat with several important United Nations organizations, for common objectives. In this context, a common workshop was held in Nairobi in December 2009 with the Department of Economic and Social Affairs and the Office for Disarmament Affairs on "Armed violence and youth in Africa". Collaboration was maintained with the Department of Economic and Social Affairs, the UNDP Oslo Governance Centre and other partners in the development of tools for measuring and promoting urban social cohesion.

40. As part of a global network for safer cities, a youth-led platform and a police platform for urban development initiated integration of young people and the police in urban development activities, in particular, urban safety. The police platform was launched in Barcelona, Spain, in November 2009. Agreement has been reached with the Swedish National Police Board, the Institute of Public Safety of Catalonia, the Montreal Police, the Nigerian Police, the United Nations Office on Drugs and Crime and the United Nations Institute for Training and Research on an annual joint workplan for the platform.

Cities and climate change

41. The Cities and Climate Change Initiative, launched in 2009, works with a wide range of external partners to produce measurable results. Coordination begins with local partners in undertaking activities in the initial four pilot cities under the Initiative: Kampala, Maputo, Sorsogon City, the Philippines, and Esmeraldas, Ecuador. In Kampala, UN-Habitat has teamed with Makerere University to carry out a city climate change assessment, as well as to formulate and begin implementing a climate change action plan. Similar arrangements are being established with local partners in several cities in Africa and Asia that have recently joined the Initiative.

42. In partnership with Local Government Denmark, UN-Habitat maintains a climate action map. This map now features a number of case studies on city-level climate change experiences.

43. Under the Cities and Climate Change Initiative, UN-Habitat has partnered with ICLEI-Local Governments for Sustainability to prepare a capacity-building tool on cities and carbon finance, and with the International Institute for Environment and Development to formulate a tool for developing local climate change plans. UN-Habitat also joined forces with the World Bank, the United Nations Environment Programme (UNEP) and the Cities Alliance under the Initiative to address cities and climate change. This collaboration contributes to a more coordinated and focused response on issues facing cities, particularly in developing countries. The collaborating organizations released a common standard for measuring city greenhouse gases for public comment at the fifth session of the World Urban Forum. Other products envisaged through this collaboration include an

online catalogue to facilitate access to available studies and research related to cities and climate change, and a common urban risk assessment methodology.

44. Finally, within the Cities and Climate Change Initiative UN-Habitat is exploring a new form of collaborative implementation with the Netherlands-based infrastructure and environment firm ARCADIS. ARCADIS recently signed a memorandum of understanding with UN-Habitat as a corporate sponsor of the World Urban Campaign, by which their staff will provide a significant level of work without charge in the coming years in support of UN-Habitat development initiatives.

Global Land Tool Network

45. The Global Land Tool Network is an initiative led by UN-Habitat with global partners aiming at the development of land tools, land policy and land reforms that can strengthen security of land rights for the poor, among other things. The Network already has 42 regional and international partners that include multilateral and bilateral organizations such as the World Bank, FAO, the Swedish International Development Cooperation Agency, the German Agency for Technical Cooperation and others, and members of international civil society, professional associations and research and training institutions such as the International Federation of Surveyors, the International Land Coalition, the Centre of Housing Rights and Evictions, Hakijamii, the Huairou Commission and Shack/Slum Dwellers International.

46. During the reporting period, Global Land Tool Network partners developed a gender evaluation criteria that has been piloted in three different countries (Brazil, Ghana and Nepal). This was the highlight of the reporting period. The preliminary results were presented during the fifth session of the World Urban Forum demonstrating the success of the Tool in assessing the gender sensitiveness of public policies towards land rights.

Human settlements and crises

47. UN-Habitat continues to support activities in countries both prone to and recovering from human-made and natural disasters. Support to projects in Colombia, the Democratic Republic of the Congo, Kosovo, Madagascar, Mexico, Mozambique, Nepal, Pakistan, southern Sudan and Darfur and Uganda have shown how a human settlements perspective can strengthen the transition between relief and development.

48. UN-Habitat continued to support the secretariat of the International Strategy for Disaster Reduction and other partners in the global campaign "Making cities resilient" collaborating with UN-Habitat's World Urban Campaign as well as provision of coordination in the development of normative products assisting partner cities in risk reduction and urban resilience programming.

49. Through partner consultations, UN-Habitat has strengthened the application of the guiding principles on sustainable relief and reconstruction by partners, including the Huairou Commission, Grassroots Organizations Operating Together in Sisterhood, the International Federation of Red Cross and Red Crescent Societies, and the International Strategy for Disaster Reduction, among others.

50. Within the framework of the European Chemicals Agency and the Inter-Agency Standing Committee, UN-Habitat is increasingly collaborating with

the Office for the Coordination of Humanitarian Affairs of the Secretariat, the Office of the United Nations High Commissioner for Refugees (UNHCR), UNDP, the International Federation of Red Cross and Red Crescent Societies and the International Organization for Migration to support recovery efforts of countries in crisis.

51. New partnerships have also emerged with non-governmental organizations, including the Emergency Architects Foundation, Oxfam, the Norwegian Refugee Council and the private sector. A major focus has been on integrating a human settlements perspective into the earliest stages of emergency relief to ensure that key decisions regarding land use, environmental issues, housing, infrastructure and livelihoods can be taken to facilitate transition to early recovery and reconstruction.

52. UN-Habitat and the International Federation of Red Cross and Red Crescent Societies continue to address emergency shelter needs of populations affected by natural disasters, with UN-Habitat providing technical expertise to make the coordination role of the Federation more effective. This partnership has been effectively implemented recently in Haiti, Indonesia, Mozambique, Myanmar and the Philippines.

53. As the Inter-Agency Standing Committee focal point for housing, land and property, UN-Habitat continues to lead a group of 10 organizations to strengthen the housing, land and property response in emergencies. UN-Habitat and UNHCR have cooperated directly on addressing land-related issues in the context of complex emergency resolution and mitigation in the Democratic Republic of the Congo and Darfur, the Sudan. Technical support in resolving land and property rights following disasters and conflict is ongoing in Colombia, Nepal and southern Sudan, and most recently with the International Conference on the Great Lakes Region.

54. These and other lessons have enabled UN-Habitat to continue to engage UNDP, FAO, UNICEF and UNHCR in joint programming. They have led to collaborative arrangements with UNHCR and the International Federation of Red Cross and Red Crescent Societies in the emergency shelter cluster, and with UNDP, FAO and ILO in the early recovery cluster, to produce a range of shelter, housing, land and property assessment tools, methodologies, guidelines and training materials in support of more effective responses to settlements in crisis, post-conflict and post-disaster situations.

International Labour Organization and United Nations system joint crisis initiatives

55. UN-Habitat participated in the preparation of the United Nations system-wide plan of action for the Second United Nations Decade for the Eradication of Poverty (2008-2017). The plan is prepared under the theme "Full employment and decent work for all". The plan of action consists of awareness-raising, capacity-building, best practices and integration of decent work aimed at poverty eradication into national and international policies and programmes.

56. ILO participated actively in the fifth session of the World Urban Forum. It implemented a training event on slum upgrading with a focus on livelihood strategies and a networking event on decent jobs, which was organized jointly with Building and Woodworkers International (BWI). Both ILO and BWI have been active members of the steering committee of the World Urban Campaign, and BWI

signed a compact in support of the World Urban Campaign at its launch during the World Urban Forum.

United Nations Educational, Scientific and Cultural Organization Decade of Education for Sustainable Development

57. UN-Habitat and UNEP jointly hosted the annual meeting of the Inter-Agency Committee for the United Nations Decade of Education for Sustainable Development in September 2009 in Nairobi. The United Nations Educational, Scientific and Cultural Organization (UNESCO), as the secretariat for the Decade, briefed participating organizations on the outcome of the UNESCO Conference on Education for Sustainable Development, held in Bonn from 31 March to 2 April 2009, where the strategies for promoting education for sustainable development during the second half of the Decade were discussed. The Inter-Agency Committee members identified areas for collaboration and opportunities for joint activities and events, including the eighteenth session of the Commission on Sustainable Development, and resolved to enhance information exchange and coherence. The meeting was preceded by a one-day symposium on the theme of "Climate change education and sustainable cities".

United Nations Housing Rights Programme

58. Under the United Nations Housing Rights Programme, an initiative jointly implemented by UN-Habitat and the Office of the United Nations High Commissioner for Human Rights, Fact Sheet No. 21 on "The Right to Adequate Housing" was distributed in various languages during the fifth session of the World Urban Forum.

59. Documentation on national and international housing rights legislation was updated on the website of UN-Habitat. As part of the focus area in the strategic plan of UN-Habitat on "Land and housing", a new six-year programme on providing adequate housing for all enabled UN-Habitat, together with its partners such as Shack/Slum Dwellers International, the Habitat International Coalition, the Centre on Housing Rights and Evictions, the Asian Coalition for Housing Rights and others to begin the implementation of a global eviction monitoring database.

Permanent Forum on Indigenous Issues

60. Migration and urbanization are increasingly affecting the lives of many indigenous peoples. Cities may generate and intensify social exclusion of indigenous peoples and other marginalized groups. Indigenous women and young people are usually the worst affected by discrimination in such cases. Many of the indigenous persons living in urban areas are among the most impoverished. UN-Habitat continued to work towards improving the living conditions of indigenous peoples as part of its contribution to the five main objectives of the Second International Decade of the World's Indigenous People.

61. UN-Habitat co-chaired with UNEP the Inter-Agency Support Group on Indigenous Issues and submitted the report of the Group to the Permanent Forum on Indigenous Issues at its ninth session in New York in April 2010. It also contributed to the joint paper prepared by the Inter-Agency Support Group on development with culture and identity, and stressed the challenges faced by indigenous peoples in urban areas.

62. A new report prepared under the auspices of the United Nations Housing Rights Programme, *Urban Indigenous Peoples and Migration: A Review of Policies, Programmes and Practices*, was officially launched at the round table on "Indigenous peoples, sustainable urban development with culture and identity" during the fifth session of the World Urban Forum.

UN-Water

63. UN-Habitat chairs the UN-Water task force on wastewater management, whose members include UNEP, the Advisory Board on Water and Sanitation, FAO, the Department of Economic and Social Affairs, UNDP, WHO and the secretariat of the United Nations Framework Convention on Climate Change, among others. The task force is responsible for highlighting issues surrounding wastewater management, increasing awareness by Governments and strengthening collaboration in the United Nations system on activities related to wastewater management. As part of the 2010 work programme of the task force, UN-Habitat and UNEP launched a rapid assessment report, *Sick Water? The Central Role of Wastewater Management in Sustainable Development*, during the global celebrations of the 2010 World Water Day in Nairobi.

World Health Organization and Joint United Nations Programme on HIV/AIDS

64. Relations with WHO were sustained through joint efforts in promoting the urban health agenda. As a follow-up to the report of the Commission on the Social Determinants of Health, of which the UN-Habitat Executive Director was a member, the two organizations agreed to work on a joint global report on urbanization and health. Through a process of sharing information and data, as well as the convening of expert group meetings, the report is now in the final stage of completion and is expected to be released in June 2010. In addition, WHO has devoted World Health Day on 7 April 2010 to the theme of "Urban Health Matters". A series of campaign events to promote urban health are planned throughout the year.

65. As part of the joint effort to promote the urban health agenda, the International Conference on Urban Health was held in Nairobi in October 2009. This was the first time the conference, which was attended by over a thousand participants, was held outside Europe or North America.

66. The relationship of UN-Habitat with the Joint United Nations Programme on HIV/AIDS (UNAIDS) has been further solidified with the signing of a letter of agreement in March 2010. The goal of the collaboration is to conduct a research study to compile a more robust body of evidence and a focused pool of information to better support targeted programming on urban slum settlements and HIV. The collaboration will also seek to enhance partnerships between urban slum and HIV actors to foster a more effective response to the HIV epidemic in urban slums.

67. The planned activities include the production of a joint working paper on HIV in urban squatter settlements; a meeting of experts on urban slum issues and HIV/AIDS will be convened in Nairobi to provide input for the joint working paper, to validate the paper and to galvanize future partnerships on the issue. During the fifth session of the World Urban Forum, a networking session was held on the theme "Exploring the interface of HIV and urban informal settlements".

World Bank Group and Cities Alliance

68. Partnership with Cities Alliance continued through joint efforts to raise awareness on urban challenges and on advocacy and policy issues. Ongoing implementation of the joint UN-Habitat and Cities Alliance workplan for 2008-2010 aims at furthering the collaboration between the two organizations while improving coordination.

69. In parallel, the medium-term strategy of Cities Alliance is currently in its implementation phase. Regular discussions, particularly annual bilateral consultations, have provided a good opportunity to review the role of UN-Habitat in implementing the medium-term strategy within the context of the medium-term strategic and institutional plan of UN-Habitat.

70. The tenth anniversary of Cities Alliance is an opportunity for its partners to take part in an important reflection on the role and direction of the Alliance after its first decade. These discussions continue with active participation by UN-Habitat, as one of the joint funders of the Alliance, and it has become evident that the two entities have a solid basis to seek synergies and strengthen collaboration in urban issues.

United Nations system coordination mechanisms

71. In order to promote a more effective coordinated implementation of the Habitat Agenda, UN-Habitat continued its collaboration with the United Nations system on policy and programme coordination, including policy coherence, institutional arrangements and programme implementation at the country level. It has also participated and contributed to inter-agency coordination mechanisms, including the United Nations System Chief Executives Board for Coordination, the Executive Committee on Humanitarian Affairs, the Executive Committee on Economic and Social Affairs and the United Nations Development Group and its various support and working groups.

VI. Emerging responses with the private sector

72. Working relationships with the private sector marked a new shift in 2009 with significant efforts to integrate the private sector in policy and advocacy activities, as well as direct co-investment in the delivery of social and affordable housing and infrastructure. This is a result of the medium-term strategic and institutional plan that has placed the private sector as a prominent strategic partner of the United Nations, moving beyond the realm of corporate social responsibility to look at core business practices for sustainable urbanization.

Experimental reimbursable seeding operations

73. Since April 2009, UN-Habitat has continued to develop its catalytic role in facilitating cooperation between domestic banks, local authorities and urban poor organizations to mobilize and package domestic capital, public investment and community savings for practical slum upgrading activities.

74. The experimental reimbursable seeding operations revolving loan programme is working with local banks, microfinance institutions and international financial institutions in the Lao People's Democratic Republic, Nepal, Nicaragua, Palestine,

Uganda and the United Republic of Tanzania. A local finance facility approach under way in Ghana, Indonesia, Sri Lanka and the United Republic of Tanzania offers credit enhancements and technical support to communities and domestic financial institutions to stimulate private investment in housing and basic services to underserved populations. Both approaches are actively developing innovative models showing how financing for affordable housing can be undertaken by combining the efforts of the private sector, microfinance and community financing arrangements.

75. Active partners among international finance institutions and from the private sector include the Overseas Private Investment Corporation, the International Finance Corporation, the Middle East Investment Initiative, the World Bank, the Palestine Investment Fund, CHF International, HSBC, Azania Bank in the United Republic of Tanzania, DFCU in Uganda, Lao Development Bank, the Palestine Capital Markets Authority, Bank of Palestine, Cairo Amman Bank and a range of domestic banks in Ghana, Indonesia and Sri Lanka that are providing loans to projects being developed through local finance facilities.

76. The revolving loan fund is emerging as an effective tool to reach underserved populations from the thirtieth down to the eighty-fifth income percentiles and is highly complementary to the local finance facility approach, which reaches populations from the seventieth income percentile to the bottom of the income pyramid.

77. Current transactions under the experimental reimbursable seeding operations revolving loan programme will result in the construction of new affordable housing units in Palestine, the creation of serviced plots in the United Republic of Tanzania, new and upgraded homes for the poor in Uganda, secondary lending for housing microfinance loans through microfinance institutions in Nicaragua, credit extension to save-and-build credit cooperatives in Nepal and the creation of a mortgage market in the Lao Peoples Democratic Republic. Projects being developed through partnerships and with technical assistance and credit enhancement from local finance facilities are well positioned to reach over 10,000 households by 2014. More importantly, however, lessons learned are helping to inform policies and strategies that have the potential to benefit millions of urban poor who currently do not have access to formal credit facilities.

Habitat Business Forum

78. UN-Habitat intensified its advocacy work, in particular with the launch of the Habitat Business Forum, the first international forum on better cities dedicated to the private sector. It was launched in July 2009 under the theme, "Innovative cities: showcasing and debating urban challenges and solutions". It provides a new platform to debate urban challenges and solutions and present best practices and innovation for sustainable cities.

79. UN-Habitat also organized the first Habitat Business Award in order to recognize and publicize outstanding private sector achievements contributing to sustainable urbanization. The Award was presented during the Habitat Business Forum to five global companies for their outstanding achievements seeking to create and sustain responsible business practices that foster economic, environmental and social well-being in cities.

80. UN-Habitat also strengthened its ties with the private sector by establishing substantive working relations with companies through peer learning working groups to review business models and governance issues. The groups addressed in particular the themes of "Business at the bottom of the pyramid for urban sustainability" and "Good urban governance: towards an effective private sector engagement" and issued key recommendations for improving business practices for better cities which were presented at the fifth session of the World Urban Forum.

81. UN-Habitat successfully mobilized a number of private sector partners in the World Urban Campaign sharing a common objective to promote sustainable urbanization in all spheres of public policy and public and private investment. These companies are committed to sharing their expertise in communications and outreach, knowledge management and tools and methods to support strategic initiatives designed to better inform policy dialogue and development.

Service providers

82. Operational projects in the area of water and sanitation, including mechanisms to monitor achievement of the Millennium Development Goals in partner countries, are being implemented with private sector firms such as Google, Coca Cola, BASF Corporation and Lane Xang Minerals Limited.

83. The Global Water Operators' Partnerships Alliance entered into an agreement with the Abu Dhabi Water and Electricity Authority through which the Authority will contribute 1 million dollars annually to the operational budget of the Alliance for three years, and will host the representative office of the Alliance to the Arab States in Abu Dhabi.

VII. Mainstreaming gender and empowering young people and civil society

Gender equality action plan

84. UN-Habitat's gender equality action plan (2008-2013) ensures that gender perspectives are fully integrated into all of the organization's work. The plan recognizes that partnerships and participatory processes are central to making progress towards gender equality within the context of rapid urbanization and widening inequalities in cities. UN-Habitat hosted three partner consultations in the drafting and development of the action plan. The Governing Council approved the plan in April 2009 at its twenty-second session.

85. In December, UN-Habitat and the Inter-Agency Network on Women and Gender Equality launched a web feature on gender equality and sustainable urbanization. The feature is a compilation of research and information from a wide variety of United Nations sources.

86. During the fifth World Urban Forum, Government ministers, councillors, mayors, urban planners, architects, researchers, campaigners, gender experts and representatives of women's networks and non-governmental organizations met in the Gender Equality Action Assembly to track progress and challenges in the implementation of the gender equality action plan.

87. In June 2009, UN-Habitat and the United Nations Development Fund for Women signed a memorandum of understanding focusing on the new Global Programme on Safe Cities Free of Violence against Women, which includes partnerships between local women's groups and local governments on improving women's safety and security in cities.

88. UN-Habitat is working with land access trusts for women in Burundi, Ghana, Kenya, Uganda and the United Republic of Tanzania to enable women entrepreneurs, mostly working in the informal sector, to obtain financing to buy their own homes and gain ownership to land. Other partners in this work include Governments, which have donated land, private construction companies and financial institutions.

Empowerment of global civil society

89. To determine how best to pursue partnerships with its partners in the Habitat Agenda, UN-Habitat prepared a partnership strategy which was submitted to Habitat Agenda partners for their inputs and consideration. This strategy requires a shift in how UN-Habitat interacts with its civil society partners and calls for partners to be more involved in decision-making.

90. To that end, in 2009 UN-Habitat successfully involved a greater number of civil society partners by launching a discussion series that is held three times a year. It brings together UN-Habitat's Nairobi-based and international civil society partners to discuss topics they have chosen. Topics have included "Social justice and the right to the city", and "The role of civil society in achieving sustainable urbanization". This is a unique initiative as it puts the partners in charge of selecting the topics and leading the discussion.

91. On the same basis, UN-Habitat's civil society discussions at the 2010 World Urban Forum were also led by the partners. A well-attended civil society round table discussed "The right to the city and social justice". A coalition of civil society organizations from Latin America organized and led discussions at a special session of consultations on Latin America during the Forum. This was a new initiative that will be repeated at subsequent sessions of the World Urban Forum to provide civil society organizations the opportunity to present the issues that most affect them.

Youth

92. Young people as Habitat Agenda partners participated actively in the formulation of sustainable urbanization policy. A number of activities have been undertaken within the context of the medium-term strategy and institutional plan focusing specifically on advocacy, monitoring and partnerships. Key steps to facilitate the participation of young people have been undertaken through the World Urban Youth Assembly and at the UN-Habitat Governing Council.

93. In response to calls from young people's organizations and subsequent endorsement by the Governing Council, the report, *State of the Urban Youth 2010/2011: Levelling the Playing Field*, was launched at the World Urban Youth Assembly in Rio de Janeiro, Brazil, in March 2010. UN-Habitat partnered with 12 youth organizations to facilitate participation of over 500 young people to exchange and share good practices and policies.

94. The UN-Habitat Youth Advisory Board representing young people from Africa, Asia, Latin America, North America, Asia and the Pacific continued to engage in decision-making processes with regard to the implementation of the Youth Fund. Its representatives also participated in meetings of the steering committee for the World Urban Campaign. At the municipal level, UN-Habitat has partnered with city municipalities such as those in Kampala, Kigali, Dar es Salaam, United Republic of Tanzania, Freetown and Nairobi to strengthen the capacity of local authorities to effectively engage young people and their councils to undertake youth development programmes.

95. To date, UN-Habitat has partnered with and given 67 grants to youth beneficiaries from Asia, Africa and Latin America. The Youth Fund has created an enabling environment for pro-poor investment in youth in developing country cities, with a particular focus on employment.

VIII. Flagship reports

State of the World's Cities 2010/2011

96. The *State of the World's Cities 2010/2011: Cities for All — Bridging the Urban Divide* highlights the unprecedented challenges associated with urbanization which confront the world's cities today. These challenges include grinding poverty, environmental degradation, income inequalities, historical socio-economic inequalities, marginalization and various forms of social and political exclusion.

97. The report noted that between 2000 and 2010, 227 million people in the developing world had been lifted out of slum conditions. Collectively, Governments have exceeded the Millennium Development Goal target by at least 2.2 times. This achievement is not uniformly distributed across regions however. Success is highly skewed towards the more advanced developing countries, while poorer countries have not done as well. In the course of the same period, the number of slum-dwellers increased by 6 million every year. Based on these trends it is expected that the world's slum population will reach 889 million by 2020, if no corrective action is taken. There is therefore no room for complacency.

98. The report identifies five policy steps for integrating the poor and marginalized into mainstream urban life. These are: (a) assessing the past and measuring progress; (b) establishing new, more effective institutions, or strengthening existing ones as needed; (c) building new linkages and alliances among various tiers of government; (d) developing a sustained, comprehensive vision to promote inclusiveness; and (e) ensuring an equitable redistribution of opportunities.

Regional reports

99. At its twenty-first session, in 2007, the Governing Council mandated UN-Habitat to start preparing a series of reports on the state of cities by region in order to probe more deeply into the precise details of issues and mega-trends at the global level. As a result, the UN-Habitat regional offices for Africa, Asia and Latin America and the Caribbean, and more recently also the regional office for Eastern European States, embarked on preparations for these regional reports.

100. The Regional Office for Africa and the Arab States launched the first report, *State of African Cities 2008: A Framework for Addressing Urban Challenges in Africa*, at the fourth session of the World Urban Forum, in Nanjing, China, in 2008 and it is now preparing a 2010 version to be launched at the African Ministerial Conference on Housing and Urban Development, scheduled to be held in October 2010.

101. The Regional Office for Latin America and the Caribbean launched its first *State of Latin American and Caribbean Cities 2010* report during the fifth World Urban Forum in March 2010. The Regional Office for Asia and the Pacific is expected to launch a first State of Asian and Pacific Cities at the Shanghai World Exposition on World Habitat Day in 2010.

102. The first State of European Cities in Transition report is scheduled for launching during the first quarter of 2011, while preparations are under way for a first State of Arab Cities report, due to be launched at the sixth World Urban Forum, in Bahrain.

Global Report on Human Settlements 2009

103. The *Global Report on Human Settlements 2009: Planning Sustainable Cities* assessed the effectiveness of current urban planning systems in both developing and developed countries. It identified a number of broad policy directions that must be promoted, as follows: (a) Governments should increasingly take on a more central development role in cities; (b) reformed urban planning systems must fully and unequivocally address the current and emerging urban challenges, including climate change, rapid urbanization and poverty, shrinking cities, ageing, multicultural composition of cities, informality and safety; (c) countries should formulate national urban policies in order to address urban challenges and prospects more systematically; and (d) capacity to enforce urban planning regulations, which is seriously lacking in many developing countries, should be given very high priority and should be developed on the basis of realistic standards.

104. The report further suggested that, in order to integrate the green and brown agendas in cities, urban local authorities should implement a comprehensive set of green policies and strategies encompassing urban design, energy, infrastructure, transport, waste and slums.

105. Finally, with respect to planning, the spatial structure of cities and provision of infrastructure, the report suggested that strategic spatial plans linked to accessibility and public transport as well as other types of infrastructure should be used to promote more compact forms of urban expansion. As part of this, urban local authorities should formulate infrastructure plans as key elements of strategic spatial plans. Regional governance structures should also be put in place to manage urban growth that spreads across administrative and jurisdictional boundaries, which is increasingly the case in all regions of the world.

106. In preparing these and other reports, UN-Habitat worked with many partners, especially urban researchers and professional institutions from all regions of the world. These included 56 authors from 48 institutions and 49 international expert advisers from 40 institutions. Several partner universities and professional institutions also launched the report on behalf of UN-Habitat, including in Canada, Chile, India, Lebanon and South Africa. The Royal Town Planning Institute in the

United Kingdom of Great Britain and Northern Ireland and the American Planning Association in the United States made particularly important contributions during the launching of the report.

IX. Recommendations

107. For historic reasons, the international and national debate on sustainable development has been divided between two tracks, namely the environmental protection or so-called "green agenda" and the human settlements or so-called "brown agenda". The accelerating demographic shift to cities has made sustainable urbanization synonymous with sustainable development. In a rapidly urbanizing world, social, economic and environmental issues can no longer be addressed independently of the spatial context in which they evolve. This spatial context is the city or the urban conurbation where irreversible changes are taking place in the way we use land, energy, water and other natural resources.

108. The convergence between these two agendas argues for major changes in public policy, resource allocation and decision-making. It argues for new approaches to development. The conventional social, economic and environmental pillars of sustainable development need to factor in local considerations and contexts including issues of culture, local government and governance and technology.

109. For the above reasons and others it is recommended that a third United Nations Conference on housing and sustainable urban development (Habitat III) be convened in 2016 as proposed in the resolutions of the UN-Habitat Governing Council (resolution 22/1) and the General Assembly (resolution 64/207). Such a conference would provide the necessary opportunity for the international community to define the new paradigms, new policy frameworks and new mechanisms for international cooperation that are required to guide sustainable development in an urbanizing world.

110. It is also recommended that Member States participate actively in the World Urban Campaign by organizing national habitat committees, if they do not already exist, and by taking advantage of World Habitat Day celebrations each year to mobilize a wide range of stakeholders to celebrate success stories and explore new policy options to meet current and future challenges associated with rapid urbanization. As World Habitat Day 2010 will coincide with the timing of the high-level segment of the Shanghai World Exposition, it is recommended that Member States and the United Nations family use this opportunity to renew their commitments to the coordinated implementation of the Habitat Agenda.

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High-level segment

World economic situation and prospects as of mid-2010***Summary*

The world economy continued to improve in the first half of 2010, leading to a slight upward revision in the United Nations outlook for global growth. The pace of the recovery is too weak, however, to close the global output gap left by the crisis. The recovery is also uneven across countries. While growth prospects for some developing countries are encouraging, economic activity is lacklustre in developed economies and below potential elsewhere in the developing world.

Important weaknesses in the global economy remain. Despite the large amounts of liquidity injected into the financial system, credit growth remains feeble in major developed economies and the process of financial de-leveraging is still ongoing. Unemployment rates are expected to remain elevated for a protracted period in most developed economies. In developing countries, many workers have been pushed into vulnerable employment and the number of working poor may still increase further in the immediate outlook. Fiscal positions are deteriorating rapidly, particularly among developed countries. This is limiting the space for further policy support needed to sustain the recovery in many economies. Escalated concerns about risks associated with sovereign debts in some economies have also become a new source of financial instability.

Continued macroeconomic stimulus remains crucial for solidifying and broadening the recovery, but should become more focused on boosting employment growth. A balance between the continued need for sustaining the recovery and the need for fiscal consolidation in the medium run is a key policy challenge for many developed countries. International policy coordination needs to be strengthened in order to put the world economy on a robust, sustainable and more balanced growth path, and for reforming both the national and international financial systems.

* E/2010/100.

** The present document updates *World Economic Situation and Prospects 2010* (United Nations publication, Sales No. E.10.II.C.2), released in January 2010.

I. Global macroeconomic trends

1. Having fallen into the most severe recession since the Second World War, the world economy is on the way to recovery. Following a contraction of 2.0 per cent in 2009, world gross product is expected to grow by 3.0 per cent in 2010 and 3.1 per cent in 2011 (see annex I to the present report). The pace of the recovery remains subdued, however. It is far from sufficient to recuperate the job losses and close the output gap created by the deep recession. The baseline forecast assumes that the multi-year policy stimulus measures put in place in the major economies will be implemented as envisaged, implying that in most countries government stimulus will continue at least during 2010, and that private sector confidence will pick up gradually.

2. Buttressed by unprecedented government support worldwide, global financial markets have progressively stabilized. By mid-2010, systemic risks in the world financial system have abated notably, while risk premiums in most credit market segments have dropped to pre-crisis levels. Also, major equity markets have recovered on average about half of the losses incurred during the crisis, while banks and other financial institutions have managed to rebuild their capital. Capital inflows are gradually returning to many developing economies, and prices of primary commodities have rebounded after steep declines from the start of the crisis to the second quarter of 2009.

3. The recovery in the real economy has also gained more traction. Propelled by fiscal stimulus packages and expansionary monetary policies, most economies registered positive growth in late 2009 and early 2010. The increase in policy-engendered public spending and the turnaround in inventories, which were curtailed precipitously during the crisis, have been major factors in the growth recovery. Meanwhile, household consumption and business investment are showing tentative signs of revival and international trade and global industrial production, which both collapsed during the crisis, have been rebounding steadily, although they are still below their pre-crisis peaks.

4. Yet, important weaknesses remain in the world economy. Despite the huge amount of liquidity that was injected into the financial system, credit flows to non-financial sectors in many economies, particularly the major developed economies, remain subdued. While the rebound in equity prices has mitigated the losses of many financial institutions, the process of establishing sounder balance sheets through write downs of troubled assets and de-leveraging is still ongoing. At the same time, public finances of many developed countries have deteriorated rapidly owing to the impact of the crisis and the policy responses. In some, such as Greece, Portugal, Spain and Ireland, they have already become a new source of financial instability.

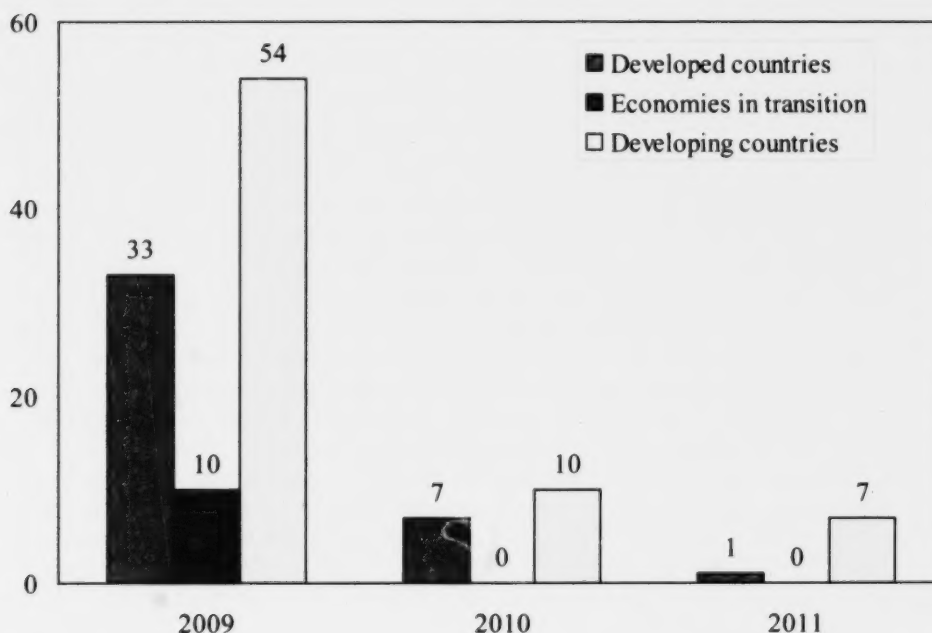
5. The recovery of economic activity at the global level is weaker and slower than observed after previous recessions of recent date. Economic recovery is also uneven across countries. In most developed countries, private sector activity is not yet on a solid footing. In the face of elevated unemployment rates, soaring public debt and limited credit flows, growth prospects for most developed economies remain lacklustre, unable to provide sufficient impetus to the global economy. While developing Asia, particularly China and India, is leading the way among developing countries, the recovery is much more subdued in many economies in Africa and

Latin America. Although most economies in transition are seeing a visible rebound from the deep downturn in 2009, the recovery is fragile being heavily dependent on conditions in world commodity markets and access to external borrowing.

6. Many developing countries are still suffering from the fallout of the global financial crisis. Though only a reduced number of developing countries are expected to register another year of decline of per capita income during 2010 (see figure 1 below), the impact on labour markets and social conditions is still being felt more broadly. The reduction in employment and income opportunities has led to a considerable slowdown in progress towards poverty reduction and the fight against hunger. By the end of 2010, the crisis will have left an estimated 64 million more people in extreme poverty relative to the pre-crisis trend. The steep rise in food prices during 2007 and 2008 is estimated to have increased the number of malnourished people by 63 million, while the global economic crisis may have led to 41 million more people being undernourished than would have been the case without the crisis.¹

Figure 1

Number of countries with declining GDP per capita, 2009-2011^a



Source: Department of Economic and Social Affairs.

^a 2009 data are partly estimated; 2010 and 2011 data are forecasts, according to baseline scenario of *World Economic Situation and Prospects 2010* as updated in mid-2010.

7. The number of unemployed worldwide rose by more than 34 million people in 2009 as the estimated global rate of unemployment increased from 5.7 per cent at

¹ IMF and World Bank, *Global Monitoring Report 2010* (Washington, D.C., The World Bank).

the end of 2007 to 6.6 per cent by the end of 2009. However, the impact of the crisis on employment levels varied greatly across countries: while some (such as the three Baltic countries and Spain) reported increases in unemployment rates of more than 10 per cent compared to pre-crisis levels, others (such as Ireland, the United States and Iceland) reported increases of 5 per cent or more. In many developing countries, informal sectors absorbed the impact on unemployment. As jobs in the informal sector tend to be more precarious and low-paying, the number of working poor is estimated to have increased by 215 million according to the International Labour Organization (ILO).² At the present rate of recovery, it is expected to take at least four to five years to bring unemployment rates down to pre-crisis levels in most developed countries. In many developing economies informal sectors may continue to expand as firms postpone hiring.

8. Weak labour markets, lower global demand and excess capacity contributed to general downward pressures on prices in 2009, with global inflation declining from 4.7 per cent in 2008 to 1.4 per cent in 2009. For the time being, inflationary pressures are expected to remain muted in developed and in many developing economies. Yet, the recent rise in commodity prices may contribute to higher inflation, especially in developing countries with rates of growth close to pre-crisis levels.

9. The risk of a protracted period of mediocre growth for the world economy remains high in the aftermath of the global financial crisis. This poses new policy challenges. In the near term, policy support remains essential for solidifying and broadening the global recovery. One key area is to strengthen support for boosting employment. A robust recovery in jobs is crucial to a recovery in effective demand, which in turn will help reduce budget deficits. An increasing number of countries have stepped up efforts to stimulate job creation, such as through subsidies to firms that hire new workers and enhanced re-employment programmes for the unemployed. However, more needs to be done to link aggregate demand management and labour market policies so as to ensure a much more job-intensive recovery.

10. During the financial crisis international policy cooperation among major economies, particularly in the Group of Twenty (G-20), played an important role in restoring confidence and averting a much deeper crisis. As the financial crisis ebbs, however, the cooperative spirit is fading. Given their diverse pace of recovery and their idiosyncratic challenges, individual countries have different policy priorities: some will be able to unwind stimulus policies earlier, while others may have to consolidate their public debt more urgently. These country-specific policy adjustments, however, require more international coordination to strengthen policy synergies at the global level and to mitigate negative policy spillovers to the world economy. Meanwhile, the unfinished agenda in reforming national and international financial systems requires further broad international policy cooperation.

II. Regional outlook

A. Developed economies

11. The United States economy has extricated itself from the deep recession and resumed growth since the second half of 2009. The slump in the housing sector that

² ILO, *Global Employment Trends, January 2010* (Geneva, International Labour Office).

started in 2006 has stabilized. Meanwhile, the speed of inventory de-stocking decelerated sharply in late 2009, contributing significantly to quarterly gross domestic product (GDP) growth. The United States economy is expected to grow by 2.9 per cent in 2010, slowing to 2.5 per cent in 2011. Private consumption growth is expected to remain subdued at 2.5 per cent in both 2010 and 2011. Payroll employment has decreased by more than 8 million from 2007 to 2009 and unemployment will remain over 9 per cent in 2010 and 2011. Persistent high unemployment and the need of households to save more to overcome wealth losses caused by the crisis will continue to restrain private consumption demand in the near term. The fiscal costs of unemployment insurance and social welfare continue to weigh on the government deficit and compound other fiscal effects of the crisis, including the cost for various bailout measures for financial institutions. As a consequence, the government deficit has soared to \$1.4 trillion, or about 10 per cent of GDP. While the cyclical factors driving up the fiscal deficit will weaken as the recovery progresses, maintaining fiscal sustainability over the medium-term poses a key challenge to the Government. Given that a large proportion of public debt is held abroad, pressures may emerge to raise interest rates if the dollar weakens with a resurging external deficit, which in turn would make reducing the budget deficit more challenging. Along with the improvement in the financial system, the Federal Reserve has phased out some of its liquidity facilities and stopped purchasing of long-term assets. Policy interest rates are expected to be maintained at a very low level until the end of 2010, but modest increases may be expected in 2011.

12. Japan's economy contracted by more than 5 per cent in 2009, its worst performance since the oil shock in the early 1970s. While a collapse in exports was the major cause of the recession, macroeconomic stimulus measures and a rebound in exports have turned the economy around. Despite a slight decline in the unemployment rate, employment and income conditions remain inauspicious while persistent deflationary pressures continue to form a major obstacle to a more robust recovery. Growth is expected to remain lacklustre throughout 2010-2011, averaging 1.3 per cent over the two-year period. Being highly dependent on exports, the economy remains susceptible to any relapse in the recovery of its major trade partners, while high unemployment and low consumer confidence will curb household spending and concerns about public debt may constrain continuation of the fiscal stimulus.

13. Most of Western Europe exited recession by the third quarter of 2009. Nonetheless, in the euro area the collapse in activity earlier in the year resulted in a decline in GDP of 4.0 per cent for 2009 as a whole. So far, the rebound has been driven by net exports, the end of inventory de-stocking and substantial fiscal support, through both automatic stabilizers and fiscal stimulus. Going forward, activity is expected to be driven by net exports with domestic demand, particularly investment, starting to contribute more in 2011. Nonetheless, domestic demand growth will remain subdued, being held back by continuing balance sheet adjustments and tight financing conditions. Investment may pick up with increasing foreign orders, but no sooner than capacity utilization has sufficiently rebounded from its record lows of mid-2009. Consumption expenditure is constrained by high rates of unemployment and meagre wage growth. As a result, overall output growth in the euro area is forecast to remain subdued at 0.9 per cent in 2010 and 1.5 per cent in 2011. With such a weak rebound in activity, unemployment is expected to remain elevated through 2011, though without significantly increasing from current levels.

14. Fiscal positions have moved sharply into deficit since the onset of the recession. Macroeconomic policy in most European countries is expected to shift from stimulus to consolidation in 2011, but the fiscal crisis in Greece is forcing immediate fiscal consolidation in those countries perceived as having unsustainable budget positions. In Greece, with an estimated deficit of 13.6 per cent of GDP in 2009 and a public debt of 115 per cent of GDP, the government became caught in a solvency crisis requiring external assistance from the International Monetary Fund (IMF) in concert with the European Union, but not before causing contagion effects in other countries. Heightened scrutiny by financial markets and downgrades by ratings agencies have led to a sharp rise in sovereign bond spreads for Portugal, Ireland, and Spain, which have already strongly tightened fiscal policy.

15. In most of the new European Union member States, economic activity stabilized in the last quarter of 2009. However, the overall decline in output was dramatic, especially in the Baltic States, which suffered double-digit contractions of GDP. With the possible exception of these countries, positive output growth is expected in most of the European Union member States in 2010. However, the recovery will be anaemic, with GDP growth reaching 1.7 per cent in 2010 compared to a 3.5 per cent contraction in 2009. While several of the new European Union countries have registered noticeable rebounds in industrial production in the first months of 2010, growth is also being constrained by low private spending and the reluctance of businesses to invest and banks to lend. Thus, an export-led recovery is the only realistic option, particularly as focus on fiscal consolidation will restrict stimulus options. However, monetary policies will remain accommodative as inflationary pressures are subdued. Meanwhile, unemployment has reached alarming levels in the Baltic States and continues to rise among the new European Union members, especially for low-skilled workers. Although the worst of the increase may be over, it will take years of economic expansion for labour markets to recover. Moreover, the risk of a double-dip recession caused by, for instance, a premature withdrawal of monetary stimulus or overzealous efforts to achieve fiscal consolidation can still not be discounted. Growth is expected to strengthen to 3.2 per cent in 2011, assuming that export demand and bank lending to the real sector will continue to pick up.

B. Economies in transition

16. Growth performance in the Commonwealth of Independent States was dismal in 2009, highlighting the region's reliance on external demand and external capital. With the global economy gradually recovering, and commodity prices, in particular for oil and metals, rebounding further from 2009 levels, the Commonwealth of Independent States is expected to grow by 4.2 per cent in 2010, compared to a 6.9 per cent contraction in 2009. However, growth in 2010 will be restrained by weak foreign direct investment and subdued export demand. Low-income countries of the region will also continue to be affected by lower workers' remittances. The combination of ample idle capacity, tight external financing and continued weak external demand is expected to result in a largely jobless recovery. Consequently, domestic demand will remain weak and banks will continue to restrain credit, despite the attempts of the authorities to boost liquidity and stimulate aggregate demand through accommodative monetary policy. Countries will benefit from anti-crisis measures. However, these are gradually being withdrawn and growth is

expected to weaken in 2011. While resource-rich countries are benefiting from higher oil prices, resource-poor countries, such as Belarus, Armenia, Kyrgyzstan and Ukraine are expected to remain dependent on external support, including standby arrangements with IMF and inflows from the European Union. Overall, the potential for social unrest and political turmoil continues to add to the uncertainties surrounding the regional economic outlook, particularly in poorer countries in Central Asia.

17. Performance was also weak in South-Eastern Europe. All countries except Albania registered a decline in GDP in 2009 on the back of declining export volumes, lower commodity prices, an abrupt slowdown in credit growth and shrinking remittances. However, most economies stabilized at the beginning of 2010 as the impact of the global downturn on the subregion was more moderate than initially feared. In part this was due to the prompt delivery of international assistance to Bosnia and Herzegovina and Serbia; it was also a result of the policy stimulus in Albania and the former Yugoslav Republic of Macedonia. Indeed, while the countries of the subregion avoided collapses of major banks despite their high degree of financial leverage, they were also able to sustain formal or informal currency pegs and did not resort to massive nationalization of enterprises. Overall, the aggregate GDP of South-Eastern Europe is expected to expand by 1.1 per cent in 2010 and, subject to favourable external conditions, by 3 per cent in 2011. However, the recovery will be constrained by weak growth in exports, modest foreign direct investment, and the worsening liquidity situation of companies caused by difficulties in collecting receivables and obtaining loans. Rising unemployment and increased taxes will further constrain increases in private consumption. Anti-recession policies are therefore expected to continue in South-Eastern Europe in 2010, although the scope for direct public stimulus is generally limited. Governments will thus aim at returning the economies to growth by improving the business environment and improving access of businesses to financing, while low inflation will allow monetary policies to remain accommodative. On the downside, the current fiscal crisis in Greece may directly affect Albania, the former Yugoslav Republic of Macedonia and Montenegro through weaker exports and remittances.

C. Developing economies

18. A rebound of exports and commodities prices contributed to a higher-than-expected GDP growth in Africa of 2.4 per cent in 2009, as did the fiscal and monetary stimuli, the continued rapid expansion of the telecommunication sector and the ongoing revival of manufacturing and increased investments. Overall, growth is expected to accelerate to 4.7 per cent in 2010 and 5.3 per cent in 2011. Though varying across countries, growth is forecast to remain below pre-crisis levels in the region. In most countries the recovery will be insufficient to achieve meaningful improvements in social conditions. In North Africa, robust domestic demand and a revival in manufacturing is driving the recovery. In Southern Africa, the economy of South Africa gathered momentum, having accelerated sharply at the end of 2009 due to improvements in primary, secondary and tertiary sectors. In 2010, the International Federation of Association Football World Cup is expected to revitalize tourism and partly compensate for the subdued household consumption expenditure, which is expected to strengthen in 2011. The revival of the extracting industries will also benefit the subregion. In Central Africa, oil production is

expected to decline further. However, higher oil prices will boost fiscal revenues, allowing Governments to expand public infrastructure investments. In West Africa, strong agricultural performance has cushioned the impact of the crisis. While services such as telecommunications and construction are expected to perform well, gold mines in Ghana and hydrocarbons in Côte d'Ivoire and Nigeria will also expand. Several East African economies will show some of the strongest performance in the region, underpinned by robust growth in construction, mining and services. Agriculture is expected to recover from droughts in 2009 and tourism is expected to revive. Structural bottlenecks, such as the poor energy and transport infrastructures, will restrain a further acceleration of growth, however, if not addressed. Other key macroeconomic indicators for Africa offer a mixed picture. Although inflation is easing, the high levels of unemployment and precarious employment remain worrisome. Structural downside risks relate to Africa's continued dependence on primary commodities and climatic conditions; an unexpected worsening in political and security situations, particularly in countries holding elections in 2010, might dampen growth prospects.

19. Following the severe downturn in late 2008 and early 2009, East Asia's economies have rebounded strongly over the past year and the outlook for 2010 and 2011 is favourable as industrial production and exports continue to expand while improved labour market conditions will support household demand. Led by strong growth in China, regional GDP is expected to increase by 7.3 per cent in 2010, up from 4.7 per cent in 2009. In 2011, growth is forecast to slow to 6.9 per cent as a further recovery in external demand is expected to only partly offset the gradual withdrawal of monetary and fiscal stimulus measures. The region's recovery is not only faster than anticipated but also remarkably broad-based and well-balanced. In most countries, the strong rebound in exports since the second quarter of 2009 has been accompanied by a recovery of business investment. At the same time, household demand remained fairly robust, while public investment and consumption expenditure rose significantly. Growth disparities within the region will narrow markedly in 2010. China will again be the region's fastest growing economy in the next two years, with GDP estimated to rise by 9.2 per cent in 2010 and 8.8 per cent in 2011. However, growth is expected to slow somewhat in 2010 mainly owing to slower credit expansion. The strong economic rebound, along with several direct and indirect Government measures to support and generate employment, has led to a sustained labour market recovery. In some East Asian countries unemployment rates are now close to — or even below — pre-crisis levels, with further improvements expected in 2010. Consumer price inflation has picked up somewhat since mid-2009 as the region's economies rebounded and as commodity prices increased. However, in most countries inflation is not expected to accelerate strongly owing to subdued labour-cost pressures, remaining output gaps, some monetary tightening and low import-price inflation, partly as a result of appreciating currencies. Against the backdrop of mild inflation and ongoing risks in the global economy, monetary conditions will continue to support growth, though central banks will gradually become more restrictive in the course of 2010 and 2011.

20. Economic activity in South Asia has also gained strength since mid-2009, driven by fiscal stimulus measures and a gradual recovery in private sector demand. Growth has picked up in India and Sri Lanka, but economic conditions have remained relatively weak in the Islamic Republic of Iran and Pakistan. GDP growth declined to 5.1 per cent in 2009 from 6.5 per cent in 2008. Overall, South Asia

proved more resilient to the global economic downturn than other developing regions. This reflects a lower degree of integration with global financial markets, less dependence on manufacturing exports, robust domestic demand, countercyclical monetary and fiscal policies and strong inflows of remittances, particularly in Bangladesh, Nepal, Pakistan and Sri Lanka. Average growth is expected to accelerate to 6.5 per cent in 2010 and 6.9 per cent in 2011 as exports continue to recover and domestic conditions improve in most countries. The recovery is led by India, where growth accelerated to 7 per cent in the second half of 2009 owing to a rapid expansion in manufacturing and services. A recovery of exports and a further strengthening of investment and consumption demand is expected to lift growth in India to 7.9 per cent in 2010 and 8.1 per cent in 2011. Labour markets across South Asia deteriorated in 2009 as regional unemployment rates edged up and the proportion of workers in vulnerable employment conditions increased. These adverse trends are expected to be partly reversed in 2010 and 2011. Although the average rate of inflation is forecast to remain constant in 2010, pressures remain elevated in most countries, especially for food products and utilities. The Reserve Bank of India has already shifted its focus from supporting the recovery process to containing price increases.

21. Following a contraction of 1 per cent in 2009, regional growth in West Asia is forecast to reach 4.2 per cent in 2010 and 4.0 per cent in 2011. Oil-exporting countries continue to benefit from higher oil prices, which will back expansionary fiscal policies and thereby support private consumption. In Saudi Arabia, for example, GDP growth is expected to recover to 3.4 per cent in 2010, up from 0.2 per cent in 2009. Improved global economic conditions are expected to drive the recovery in the non-oil-exporting countries of the region. GDP growth is expected to reach 3.5 per cent in Turkey in 2010, compared to a contraction of 4.7 per cent in 2009. Besides base effects, the recovery is supported further by lower interest rates, improved credit conditions and expansionary fiscal policy. Growth rates have also been revised upwards for Lebanon and Israel. Non-oil exporters will see further increases in their growth rates in 2011 if external demand continues to recover as projected in the baseline forecast. Slight improvements with respect to employment are expected while fiscal balances will also improve moderately thanks to higher oil prices (in the case of the oil exporters), improved economic activity and fiscal consolidation measures.

22. Economic activity in Latin America and the Caribbean has also recovered more strongly than previously expected. GDP growth in the region will reach 4.0 per cent in 2010 and 3.9 per cent in 2011, compared to a contraction of 2.1 per cent in 2009. Following the mild recession that several economies experienced in 2009 in South America, activity rebounded strongly in the last quarter of 2009, benefiting from higher commodity prices and increased export demand. The Brazilian economy is expected to grow by 5.8 per cent in 2010 thanks to robust domestic demand. Despite the recent surge in oil prices, economic recovery in the Bolivarian Republic of Venezuela will remain sluggish as electricity shortages affect production (including in the oil sector) and private demand remains subdued. In Mexico, Central America and the Caribbean, economic activity is expected to recover only moderately owing to the slow recovery in the demand for the region's exports from the United States, reduced tourism inflows and still weak private consumption demand. Thus, after contracting significantly in 2009, the Mexican economy is expected to grow by 3.5 per cent in 2010 and will not be back to its

pre-crisis size anytime before 2012. Monetary policy stances in most countries of the region are expected to remain unchanged until the second half of 2010, as inflation is expected to remain under control this year. Fiscal constraints will restrict further fiscal stimulus in many countries as budget deficits increased significantly in 2009. However, with continued high unemployment and increasing vulnerable employment levels, the economic recovery needs to gain more impetus. To achieve this, further fiscal stimulus will be crucial in several countries, in particular those of Central America and the Caribbean.

III. The international economic environment for developing countries

23. The international economic environment for developing countries generally has started to improve. Capital inflows are returning, external financing costs are declining, commodity prices are rebounding and trade flows are recovering. These factors are not equally beneficial to all developing countries, however. While some developing countries are benefiting from higher commodity prices, others are seeing their terms of trade deteriorate and their trade deficits widen. Similarly, quite a few are expected to continue to face more restricted access to capital inflows, while the level of official development assistance remains short of the commitments made as part of the global partnership for development.

A. Commodity prices

24. Sharp declines were observed in commodity prices in 2009. Price indices of agricultural raw materials, minerals, ores, metals and of staples declined by more than 20 per cent owing to weak global demand, while oil prices dropped by more than 35 per cent. These trends have however been reversed since the second half of 2009. Although prices will remain well below their peaks observed in mid-2008, the increase will benefit net exporters of these products. Prices of minerals, ores and metals are expected to increase by more than 40 per cent as robust growth in China in particular is keeping up global demand for these commodities.

25. The price of Brent crude oil is expected to average \$72 per barrel in 2010, 16 per cent higher than the average for 2009. Demand for oil is expected to grow by 1.5 per cent in 2010, mainly owing to the measured increase in demand from major developing countries, including China and India. Food prices, in contrast, are forecast to decline by 3.4 per cent, on average, in 2010.

B. Trade flows and terms of trade

26. World trade continues to pick up gradually owing to the rebound of export production in East Asia and other developing regions. However, the recovery remains constrained by weak aggregate demand and somewhat elevated trade finance costs. In the first two months of 2010, the world trade volume was 13 per cent higher than the corresponding period of 2009, but still 9 per cent below the level in 2008. World trade is expected to grow by 7.6 per cent in 2010, having declined by 13.1 per cent in 2009. This gradual upward trend is forecast to continue in 2011, with trade volumes expanding by 5.9 per cent (see annex, table A.1).

27. Trade in developed economies, particularly in Europe, remains subdued owing to the sluggish recovery of final demand. Japan's exports have rebounded strongly after the country experienced the biggest decline in the aftermath of the Lehman Brothers' collapse. Driven by strong demand from East Asia, year-on-year export growth in Japan accelerated to about 36 per cent in the first two months of 2010 while the United States and Europe experienced increases of 15 per cent and 7 per cent, respectively. However, these improvements partly reflect the low bases of early 2009; trade volumes in all developed regions are still far below pre-crisis levels.

28. In East Asia, in contrast, trade volumes are now almost back to pre-crisis levels. Intra-Asian trade strengthened with the strong recovery of industrial production in regional value chains and related demand for intermediate goods, supported by large stimulus packages. The impact of China's massive development projects in infrastructure and construction will boost export revenues in mineral- and oil-exporting countries in Africa, South America and Western Asia. For instance, Peru's total export revenues increased by a factor of 2.4 year-on-year in the fourth quarter of 2009, with exports to China more than quadrupling during this period. Meanwhile, energy-importing low-income countries have seen their terms of trade decline in the course of 2009, offsetting earlier gains. Moreover, they are expected to face a renewed surge in their trade deficits as import spending is likely to grow faster than export earnings in 2010 and 2011.

C. International finance

29. After a precipitous decline in late 2008 and early 2009, net private capital inflows to emerging market economies have rebounded. The net private inflows to these economies in 2009, totalling some \$500 billion, remain well below pre-crisis levels of 2007, however, when they peaked at \$1.2 trillion. While foreign direct investment inflows declined by about 30 per cent in 2009, portfolio investment rebounded markedly, turning from net outflows in 2008 to inflows of some \$100 billion. Foreign commercial banks also registered net outflows in 2009. In the outlook for 2010, total net capital inflows to this group of countries are expected to recover by about 30 per cent, to above \$700 billion, but their growth will moderate considerably in 2010.

30. Robust growth in a number of emerging market economies underlies resurging private capital inflows. A quick return to pre-crisis levels of capital flows is not likely, however. On the supply side, the still ongoing de-leveraging of many financial institutions in advanced market economies is likely to limit capital flows to developing economies. Demand for foreign capital inflows may also not be very strong given abundant availability of domestic liquidity in many emerging market economies.

31. Meanwhile, the strong rebound of equity markets in emerging market economies since early 2009 has generated concerns about the emergence of new speculative bubbles. To mitigate the impact of pro-cyclical and speculative private capital movements, several developing countries have responded by adopting capital controls. Lack of progress in internationally coordinated financial regulatory reforms may induce more countries to introduce capital controls.

32. After a surge during the global financial crisis, external financing costs for developing market economies have retreated to the pre-crisis levels, as measured through the Emerging Markets Bond Index.

D. Official development assistance

33. Official development assistance increased slightly in real terms to reach \$119.6 billion in 2009.³ Nonetheless, at 0.31 per cent of donors' aggregate gross national income, this share was below historic patterns achieved throughout the 1980s. The level is also still well short of the Gleneagles commitment, according to which the 22 members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) would have raised their annual aid flows to about \$150 billion (measured in current dollars) in 2010. Current projections of the Committee suggest that aid flows may increase to about \$130 billion in 2010, which would be about \$20 billion short of the commitments made in 2005 at the G8 Summit held at Gleneagles. The gap in delivering on the commitments to raise official development assistance for Africa would be about \$14 billion.

34. From the perspective of recipient countries, a shortfall of this magnitude is critical, especially in countries where official development assistance represents a sizeable part of Government receipts. It becomes even more acute when the impact of the global crisis on these economies is considered. A recent study by the Department of Economic and Social Affairs of the Secretariat showed that the recession in 2009 and slow recovery thereafter would substantially hamper the efforts of several of Latin America's lower income countries (Bolivia, Honduras and Nicaragua) to achieve the Millennium Development Goals for primary school completion, child and maternal mortality and access to drinking water and sanitation.⁴ The Governments of those countries would need to spend an extra 1.5 to 3.5 per cent of GDP per year on education, health and basic services between 2010 and 2015 to achieve the Goals, as compared with the pre-crisis scenario. Given immediate domestic financing constraints and still-high levels of public indebtedness, the study concludes that without additional official development assistance it will be difficult for those countries to meet the Millennium Development Goals and lay foundations for more robust growth in the future. A similar analysis referring more broadly to a larger range of low-income and resource-poor countries equally concludes that strong aid flows will be needed to support domestic policy efforts towards achievement of the Goals in these contexts.⁵

E. Exchange rates and reserves

35. The global financial crisis and attendant recession have seen large swings in the major exchange rates as the competing forces of risk and expected relative returns ebbed and flowed. The value of the United States dollar against the euro has

³ According to data from the Development Assistance Committee of OECD.

⁴ See Rob Vos and Marco V. Sánchez, "Impact of the global crisis on the achievement of the MDGs in Latin America", DESA Working Paper No. 74, June 2009 (revised May 2010), available at www.un.org/en/development/desa/papers/2009/wp74_2009.pdf.

⁵ See IMF and World Bank, *Global Monitoring Report 2010*, note 1 above, pp. 109-111.

fluctuated within a narrower band since 2008, but volatility remains high. Most recently, the dollar strengthened again owing to a weaker euro caused by the Greek and other looming debt crises. The situation has also exposed institutional weaknesses of the European monetary union, such as the lack of a lender-of-last-resort mechanism. The existence of such a mechanism would have allowed a swifter response to the Greek debt crisis.

36. Volatility in the dollar-yen exchange rate also has been less pronounced since 2008, despite the weak economic prospects for Japan. An explanation can be found in the major importance of the yen in the carry-trade currency market, which has helped keep up the value of the yen.

37. Holdings of foreign exchange reserves worldwide have continued to increase. During 2009, they increased by about \$1 trillion to a total of \$7.7 trillion. Developing countries and the economies in transition account for almost all of the increase. China alone holds one third of those reserves, yet the countries with the largest percentage increase were in Latin America and included Mexico and Brazil. The Russian Federation also increased its reserves by \$38 billion over the year, despite the heavy use of reserves in the beginning of 2009 when a crisis of the rouble had to be averted.

38. A main source for the accumulation of reserves in developing countries and the economies in transition has been the recovery in capital flows to these economies. Several countries have been using the additional reserves to intervene in currency markets to offset pressures towards exchange rate appreciation. The substantial increase in reserves may also have been motivated by lessons learned in the financial crises of the past decade, in which countries with large foreign exchange reserves seemed to be in a better position to weather the external shocks. However, this form of self-insurance comes at a significant cost for developing countries, as the trillions of dollars held as reserves and invested to finance deficits in major developed countries could otherwise be used for the development of their own economies. It also seems paradoxical that individual countries continue to accumulate reserves for self-insurance despite the substantial expansion of IMF resources to meet the financing needs of member States confronting external shocks. Indeed, it highlights the importance of moving forward with reforms of the global reserve system.

IV. Uncertainties and risks

39. Although the global economy is slowly recovering from the deep recession, a number of uncertainties and risks cloud the outlook, in particular those associated with rising public sector indebtedness in major economies and resurging global imbalances under the present path of global recovery.

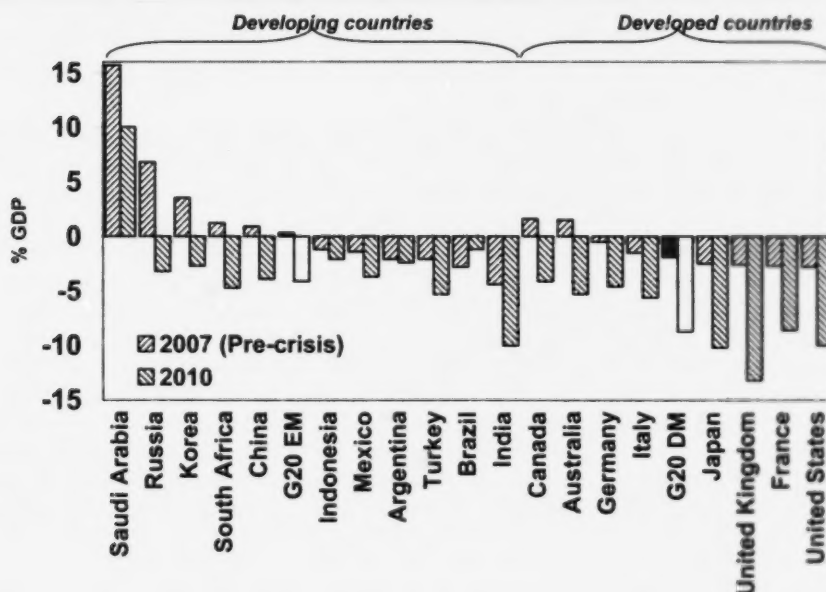
A. Rising public deficits and debts

40. A large number of countries responded to the economic and financial crisis with fiscal stimulus packages to support aggregate demand. While these packages were critical for stabilizing individual economies in 2009, their contribution to the economic recovery has been uneven. This can be explained in part by the large

differences in the nature and size of the stimulus packages across countries and in the timing of their implementation. It is difficult to generalize, but broadly it can be said that swifter responses and larger packages (relative to the size of the economy), as was the case for several major developing countries, accelerated recovery.

41. The discretionary fiscal measures have contributed to widening budget deficits (see figure II below), though the direct impact of the recession (in terms of lower tax revenues and/or higher unemployment benefit payments) has been larger. According to IMF estimates, the stimulus packages account for approximately 40 per cent of the increase in structural primary balances in the developed countries that are part of the G20 and 30 per cent in the case of the developing countries that are G20 members.

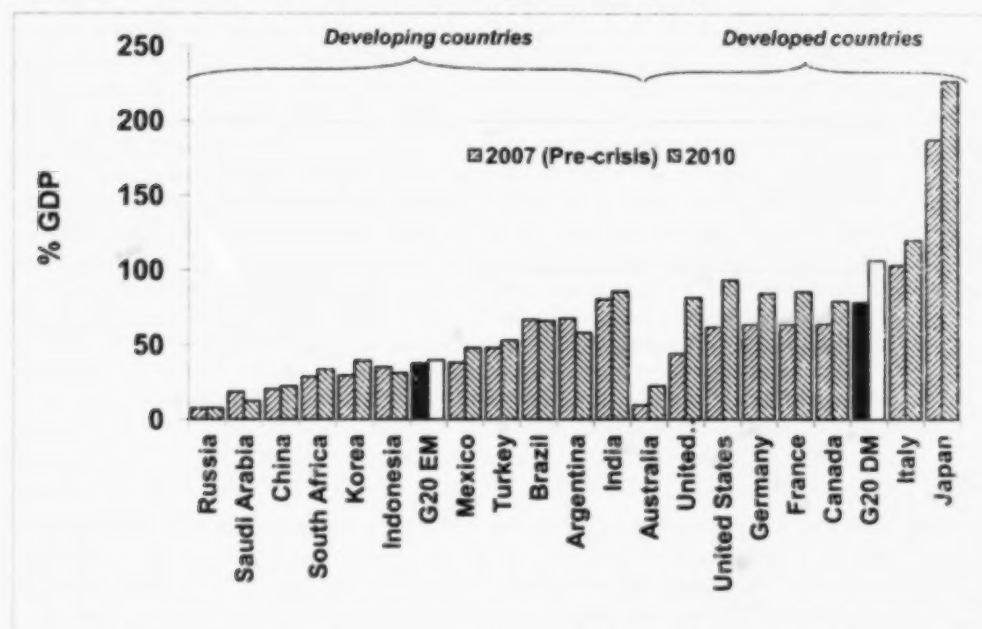
Figure II
Overall fiscal balance of G20 countries (percentage of GDP)



Source: IMF, "The state of public finances cross-country fiscal monitor: November 2009", IMF Staff Position Note SPN/09/25 (Washington, D.C., November 2009).

42. Levels of public indebtedness have also increased significantly, especially among developed countries (see figure III below). The perception of increased risk of sovereign debt default is exemplified by recent woes of several smaller European countries, including Greece and Portugal, but concerns are wider and extend to larger economies like Spain. As these countries are part of the euro zone their problems spread to turmoil in global currency and financial markets.

Figure III
General Government debt of G20 countries (percentage of GDP)



Source: IMF, "The state of public finances cross-country fiscal monitor: November 2009", IMF Staff Position Note SPN/09/25 (Washington, D.C., November 3, 2009).

43. The countries involved have already scheduled severe fiscal cuts to redress the situation. With the withdrawal of fiscal support, the recession in these economies will endure through 2010 and possibly beyond, making a return to fiscal sustainability an even bigger challenge. It exemplifies the fine line between ensuring sufficient support for recovery and avoiding major debt problems. As discussed in *World Economic Situation and Prospects 2010* (www.un.org/esa/policy/wess/wesp.html), a premature move to fiscal consolidation at this stage of the recovery would risk lower growth and tax revenue, thereby possibly exacerbating fiscal difficulties and causing the public debt ratio to rise even further. For most countries, it remains important to maintain fiscal stimulus measures until a marked recovery is taking place.

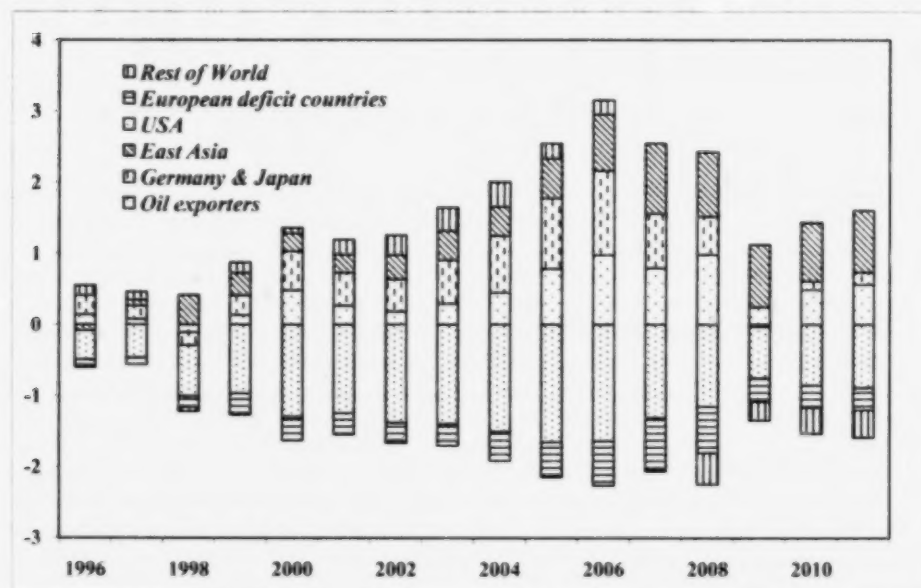
B. Global imbalances

44. As the crisis unfolded, the global imbalances narrowed markedly in 2009 (see figure IV below). The large external deficit of the United States declined from \$700 billion in 2008 to about \$420 billion in 2009, approximately 3 per cent of its GDP. This was mirrored by smaller savings surpluses in China, Germany, Japan and a group of oil-exporting countries. This adjustment was a pure effect of the recession, reflecting the sharp retrenchment in imports of deficit countries and the collapse in exports of surplus countries, especially in early 2009. In the United

States, declining import demand was closely linked to lower household consumption and a precipitous fall in both residential and business investment. The household savings rate increased from 1.7 per cent of disposable income in 2007 to 4.2 per cent in 2009.⁶ Government savings, in contrast, declined along with the widening of the budget deficit, which surged from 1.2 per cent of GDP in 2007 to 9.9 per cent in 2009. Adjustments in savings and investment balances of major surplus economies vary across countries, but falling Government savings has been a common trend. Among the surplus countries that entered into recession, like Germany and Japan, falling tax revenue and higher fiscal spending as part of stimulus measures are key factors behind the decline in their aggregate savings surpluses. The decline in investment demand in Germany and Japan only partly offset this trend. In China, in contrast, fiscal stimulus and a strong increase in investment demand are main factors behind the reduction of its savings surplus in 2009. Consumption demand in China also increased markedly, but compared with other major economies total consumption relative to GDP still remains extremely low.

Figure IV
Global imbalances, 1996-2011

(current account balances as a percentage of world gross product)



Source: Department of Economic and Social Affairs based on *World Economic Situation and Prospects 2010* as updated in mid-2010 and IMF World Economic Outlook database (April 2010).

45. If the recovery continues on its current path, however, the global imbalances could widen once again. The large budget deficit of the United States is expected to remain high for some time and is likely to decrease only gradually as a share of GDP. At the same time, the private sector in the United States is not expected to

⁶ As a share of GDP, personal savings in the United States increased from 1.3 per cent in 2007 to 3.3 per cent in 2009.

generate large enough savings surpluses to finance the Government deficits, implying that the economy will continue to rely on foreign borrowing. As the recovery proceeds, business confidence improves and output gaps are closed, private investment demand is likely to pick up ahead of growth in private savings. Consequently, even with a gradual rebalancing from public to private demand during the recovery, the United States external deficit may increase further in the medium term. In Europe, the recovery may show a similar pattern of rebalancing, assuming that an ongoing recovery will induce a phasing out of the fiscal stimulus while private consumption and investment demand will pick up again from 2011. Such trends in Europe and the United States would need to be matched by increasing surpluses elsewhere. In major surplus countries, the saving-investment patterns have not been fundamentally changed. All other things being equal, the recovery will sustain the rebound in oil prices and thereby savings surpluses in major oil-exporting countries. Most countries in Asia have resumed their export-led growth paths. China is taking policy measures to rebalance growth towards domestic demand, particularly by stimulating household consumption growth, but in such a large economy structurally altering the basic drivers of growth will take a long time. In the short run, China's external surpluses may still be expected to increase, especially as China's net investment income on foreign assets is becoming an increasingly important contributor to the country's foreign-exchange earnings.

46. Annex II to the present report presents such a possible pattern of global imbalances under a scenario of a continued slow global recovery for the world as a whole beyond the baseline forecast for 2011. The results are based on simulations with the United Nations Global Policy Model (www.un.org/esa/policy/publications/ungpm.html) under the assumptions given above. It is highly uncertain whether such a scenario will actually materialize, but it shows the potential risks associated with an uncoordinated economic recovery. Public debt ratios in Europe and the United States would continue to increase over the medium run and the net external liability position of the United States, which is already large, would increase further. This would increase the cost of borrowing in deficit countries and enhance the likelihood of much larger exchange rate volatilities. The fundamentals are for a much weaker United States dollar, which could strengthen export growth. But a stronger dollar in combination with a continued high public debt overhang in both Europe and the United States would increase substantially the risk of a disorderly adjustment and volatility in currency and financial markets at large. Much stronger macroeconomic policy coordination will be needed to avert such risks and put the global economy on a more sustainable path of recovery.

V. Policy challenges

47. Since the onset of the crisis, Government support has contributed to a progressive stabilization of global financial markets. Significant fiscal stimulus packages were enacted, central bank policy rates were cut decisively and a wide range of unconventional monetary measures was introduced. As financial market conditions improved and signs of a gradual recovery have strengthened, most short-term liquidity measures have been wound down by the end of the first quarter of 2010, while most long-term securities that central banks purchased remain on their balance sheets.

48. The authorities of most major developed economies are expected to maintain their current policy stance throughout 2010, and begin a process of tightening of policy thereafter. Central banks are not expected to reduce their holdings of long-term securities, purchased during the crisis, in 2010, thus keeping long-term interest rates at relatively low levels. Meanwhile, the stimulatory fiscal stances will remain intact for 2010. It is expected though that many countries will begin taking steps towards fiscal consolidation in 2011.

49. The subdued and uneven recovery of the global economy poses additional policy challenges. First, dealing with the jobs crisis is of immediate urgency as persistent high unemployment and underemployment rates are slowing the global recovery itself as well as progress towards poverty reduction in developing countries. Much of the demand recovery still rests on Government support. In most countries, these support measures will need to be maintained during 2010 and perhaps into 2011. In order to accelerate recovery in job markets, however, much more of the demand stimulus will need to be focused on providing incentives to productive employment creation. Job growth will also be a key ingredient in redressing the trend towards widening fiscal deficits by stemming the drop in tax revenue and reducing the need for social protection spending. Exit strategies from the extraordinary stimulus measures thus will need to be closely coordinated with labour market policies.

50. Second, there is a need for more resources and greater efforts to make up for the significant setbacks in progress towards the Millennium Development Goals. Low-income countries with limited fiscal space are in need of additional official development assistance to finance the expansion of social services and programmes needed to meet the Goals and engage in countercyclical policies. These increased needs contrast with the still significant shortfall in aid delivery against commitments. Although the OECD Development Assistance Committee expects continued modest growth in total net official development assistance for 2009 and 2010, the estimated shortfall against the Gleneagles commitments will be \$20 billion in 2010. Apart from fulfilling commitments, donor countries should consider mechanisms to de-link aid flows from their business cycles to prevent delivery shortfalls in times of crisis when the need for development aid is most urgent.

51. More broadly, the global crisis has highlighted the need for very large liquidity buffers to deal with sudden and large capital market shocks. In response to the financial crises of the 1990s, many developing countries have accumulated vast reserves as a form of self-insurance. But doing so comes at a high opportunity cost and has aggravated global imbalances. Better pooling of reserves regionally and internationally could reduce such costs to individual countries and form the basis for more reliable emergency financing and the establishment of an international lender-of-last-resort mechanism. Broadening existing special drawing right arrangements could be part of such new arrangements and, as argued at greater length in *World Economic Situation and Prospects 2010* (www.un.org/esa/policy/wess/wesp.html), form part of a much-needed broader reform of the global reserve system.

52. Third, those efforts will need to be underpinned by strengthened international policy coordination to avoid weakening of the recovery which may result from premature and uncoordinated exit strategies from the macroeconomic stimulus measures and failure to address the spillover effects of emerging public debt crises

in developed countries. Further progress on systemic reforms will also be needed. The lack of a concerted approach and of strong policy coordination among members of the European Union to tackle concerns of fiscal sustainability, particularly in Greece, and the fallout of the initial indecisiveness on financial markets, highlight the importance, particularly in times of greater uncertainty, of broad and effective policy coordination among the major economies to prevent the return of global imbalances and to ensure that the recovery is sustainable. In this regard, the G20 Summit at Pittsburgh launched a framework for strong, sustainable and balanced growth, under which the deficit members of the G20, mainly the United States, pledge to undertake policies to support private savings and to consolidate their fiscal deficit, while the surplus members agree to strengthen domestic sources of growth through measures such as reducing financial markets distortions, boosting productivity in service sectors and improving social safety nets. Although this framework is a first step in promoting more balanced global growth, more specific and concrete policies need to follow. This is particularly important in the medium term, in which policymakers need to coordinate an "exit strategy" and phase out stimulus measures once unemployment rates have decreased significantly, while retaining a countercyclical policy framework. In the longer term, countries should ultimately coordinate their macroeconomic policies towards a combination of manageable global imbalances. These policies would require greater net financial transfers to developing countries and should ensure that fiscal policy stances remain expansionary in developing countries, but are gradually phased out in developed countries.

Annex I

Growth of world output, 2004-2011, annual percentage change

	2004- 2007 ^a	2008	2009 ^b	2010 ^c	2011 ^c	Change of current 2010 forecast from forecast of January 2010 ^d
World	3.8	1.8	-2.0	3.0	3.2	0.6
Developed economies	2.6	0.4	-3.4	1.9	2.1	0.6
United States of America	2.6	0.4	-2.4	2.9	2.5	0.8
Japan	2.1	-1.2	-5.2	1.3	1.3	0.4
European Union	2.7	0.8	-4.2	1.0	1.8	0.5
European Union members	2.5	0.5	-4.2	0.9	1.7	0.4
New EU members	5.8	3.9	-3.5	1.7	3.2	0.5
Euro zone	2.5	0.6	-4.0	0.9	1.5	0.5
Other European	3.0	1.8	-1.7	1.9	2.2	1.2
Other developed countries	3.1	1.0	-1.0	3.1	2.9	1.0
Economies in transition	7.6	5.4	-6.7	3.9	3.4	2.3
South-Eastern Europe	5.3	4.3	-3.7	1.1	3.0	0.4
Commonwealth of Independent States	7.8	5.5	-6.9	4.2	3.5	2.5
Russian Federation	7.4	5.6	-7.9	4.3	3.0	2.8
Developing economies	7.2	5.3	2.2	5.9	5.8	0.6
Africa	5.7	5.0	2.4	4.7	5.3	0.4
North Africa	5.2	4.9	3.6	4.6	5.3	0.7
Sub-Saharan Africa	6.0	5.0	1.9	4.7	5.3	0.3
Nigeria	6.0	6.0	6.9	6.5	7.0	1.5
South Africa	5.1	3.1	-1.8	2.7	3.5	-0.4
Others	6.8	6.2	2.8	5.6	5.9	0.4
East and South Asia	8.5	6.2	4.8	7.1	6.9	0.7
East Asia	8.6	6.1	4.7	7.3	6.9	0.6
China	11.7	9.0	8.7	9.2	8.8	0.4
South Asia	8.1	6.5	5.1	6.5	6.9	1.0
India	9.2	7.3	6.4	7.9	8.1	1.4
Western Asia	6.0	4.3	-1.0	4.2	4.0	0.6
Latin America and the Caribbean	5.3	4.0	-2.1	4.0	3.9	0.6
South America	5.8	5.3	-0.3	4.5	4.6	0.8
Brazil	4.4	5.1	-0.2	5.8	5.6	1.3
Mexico and Central America	4.1	1.7	-5.9	3.4	2.8	0.5
Mexico	3.9	1.3	-6.5	3.5	2.8	0.5
Caribbean	8.2	3.8	1.0	2.1	3.0	-0.4
Least developed countries	7.8	7.1	4.0	5.6	5.6	0.3

	2004- 2007 ^a	2008	2009 ^b	2010 ^c	2011 ^c	Change of current 2010 forecast from forecast of January 2010 ^d
<i>Memorandum items:</i>						
World trade	7.7	2.7	-13.1	7.6	5.9	2.2
World output growth with purchasing- power-parity-based weights	4.8	2.9	-0.8	3.9	4.0	0.7

Source: Department of Economic and Social Affairs.

^a Average percentage change.

^b Partly estimated.

^c Forecast, based in part on Project LINK.

^d See *World Economic Situation and Prospects 2010*, available at www.un.org/esa/policy/wesp/wesp2010files/wesp2010.pdf.

Annex II

Midterm scenario of risk of resurging global imbalances (percentages)

	Average 2004-2007	2009	2011	2013	2015
World					
Economic growth	3.9	-2.0	3.8	4.4	4.1
United States					
Economic growth	2.8	-2.4	3.4	3.9	2.6
Contribution of private demand	2.4	-5.4	2.9	4.1	2.9
Contribution of Government demand	0.5	1.9	0.4	0.1	0.0
Contribution of trade balance	-0.1	1.0	0.1	-0.2	-0.3
Bank loans (private) to GDP	86.8	77.6	56.2	69.4	89.2
Government debt to GDP	49.3	71.8	92.8	95.9	94.8
Private saving-investment balance to GDP	-2.7	6.9	4.8	0.7	-3.0
Government savings-investment balance to GDP	-3.1	-10.2	-8.9	-6.2	-4.7
Current account to GDP	-5.8	-3.3	-4.1	-5.5	-7.6
<i>of which:</i> account of income and transfers	-0.2	0.1	-0.1	-0.3	-0.8
Europe					
Economic growth	2.6	-4.0	2.7	3.2	3.5
Contribution of private demand	2.2	-5.7	2.2	3.1	3.4
Contribution of Government demand	0.5	0.9	0.4	0.3	0.3
Contribution of trade balance	-0.1	0.8	0.1	-0.2	-0.2
Bank loans (private) to GDP	117.1	106.8	84.5	97.1	113.0
Government debt to GDP	61.1	81.9	96.7	96.0	87.3
Private saving-investment balance to GDP	1.6	4.0	3.5	1.2	-1.3
Government savings-investment balance to GDP	-1.5	-4.4	-4.0	-2.7	-1.5
Current account to GDP	0.1	-0.4	-0.5	-1.4	-2.8
<i>of which:</i> account of income and transfers	-0.5	-1.2	-1.2	-1.4	-2.0
Japan and other developed economies					
Economic growth	2.5	-4.2	2.2	2.8	2.6
Contribution of private demand	2.1	-3.8	1.6	1.9	1.9
Contribution of Government demand	0.5	0.8	0.6	0.6	0.6
Contribution of trade balance	-0.1	-0.7	0.1	0.4	0.2
Bank loans (private) to GDP	149.9	155.8	149.7	156.7	164.3
Government debt to GDP	126.4	135.2	129.9	123.1	116.5
Private saving-investment balance to GDP	-1.3	1.4	1.2	1.8	2.6
Government savings-investment balance to GDP	3.3	-0.6	0.0	0.5	0.4
Current account to GDP	2.0	0.8	1.1	2.3	3.0
<i>of which:</i> account of income and transfers	1.0	1.4	1.3	1.2	1.1

	Average 2004-2007	2009	2011	2013	2015
Economies in transition					
Economic growth	7.4	-6.7	6.3	6.3	7.1
Contribution of private demand	8.2	-19.3	6.8	-6.8	-7.4
Contribution of Government demand	2.5	3.7	2.2	1.6	1.4
Contribution of trade balance	-3.4	-8.9	-2.8	-2.0	-1.7
Bank loans (private) to GDP	33.0	61.7	43.2	39.9	38.1
Government debt to GDP	17.5	17.3	27.4	32.8	32.8
Private saving-investment balance to GDP	1.7	7.9	10.3	9.6	8.7
Government savings-investment balance to GDP	4.3	-5.3	-6.7	-5.9	-4.6
Current account to GDP	6.0	2.5	3.0	3.7	3.1
<i>of which:</i> account of income and transfers	-2.1	-3.3	-2.6	-2.2	-1.9
China					
Economic growth	11.2	8.7	8.2	8.9	8.5
Contribution of private demand	8.6	11.0	8.0	8.4	8.0
Contribution of Government demand	1.4	3.2	1.0	0.9	0.9
Contribution of trade balance	1.1	-5.4	-0.7	-0.4	0.0
Bank loans (private) to GDP	125.1	108.8	120.5	130.8	142.8
Government debt to GDP	11.9	13.8	16.8	18.1	18.0
Private saving-investment balance to GDP	11.4	9.3	8.9	7.9	9.2
Government savings-investment balance to GDP	-3.9	-3.5	-3.1	-1.7	0.0
Current account to GDP	7.5	5.9	5.9	6.2	9.2
<i>of which:</i> account of income and transfers	1.7	1.7	1.7	2.8	4.8
India					
Economic growth	9.0	6.4	9.8	8.6	7.8
Contribution of private demand	9.4	3.9	7.6	6.5	6.1
Contribution of Government demand	1.1	3.6	0.8	0.4	0.4
Contribution of trade balance	-1.5	-1.1	1.5	1.6	1.4
Bank loans (private) to GDP	42.2	51.4	51.4	53.1	55.0
Government debt to GDP	67.8	71.2	70.2	63.7	61.4
Private saving-investment balance to GDP	2.9	7.4	6.4	8.9	1.8
Government savings-investment balance to GDP	-3.3	-8.8	-7.1	-4.6	-2.7
Current account to GDP	-0.4	-1.4	-0.7	-1.3	-0.7
<i>of which:</i> account of income and transfers	2.7	3.9	3.6	3.4	3.0
Other developing Asian economies					
Economic growth	6.1	-0.1	3.7	5.2	5.9
Contribution of private demand	5.2	-3.3	3.7	4.2	4.3
Contribution of Government demand	1.1	1.3	0.9	0.9	0.9
Contribution of trade balance	-0.2	1.8	-0.9	-0.2	0.0
Bank loans (private) to GDP	55.2	68.3	65.4	67.4	70.0

	Average 2004-2007	2009	2011	2013	2015
Government debt to GDP	50.3	55.8	46.0	39.2	34.9
Private saving-investment balance to GDP	5.2	4.7	4.1	4.5	5.4
Government savings-investment balance to GDP	1.0	0.1	0.3	0.4	0.4
Current account to GDP	6.3	4.8	4.3	5.0	5.8
<i>of which: account of income and transfers</i>	-0.2	0.4	0.5	0.5	0.6
Latin America					
Economic growth	5.6	-2.1	4.4	4.9	5.3
Contribution of private demand	5.5	-4.7	3.7	3.9	4.2
Contribution of Government demand	1.3	1.1	0.9	0.8	0.9
Contribution of trade balance	-1.1	1.5	-0.1	0.2	0.2
Bank loans (private) to GDP	32.3	55.9	52.4	51.4	51.1
Government debt to GDP	30.7	36.5	36.4	34.4	30.9
Private saving-investment balance to GDP	0.5	0.3	0.2	1.2	1.9
Government savings-investment balance to GDP	0.1	-1.6	-1.5	-1.3	-1.0
Current account to GDP	0.6	-1.2	-1.3	-0.1	1.0
<i>of which: account of income and transfers</i>	-0.7	-0.5	-0.5	-0.6	-0.6
Africa					
Economic growth	6.5	2.4	6.0	5.8	5.5
Contribution of private demand	6.0	0.9	5.1	4.5	4.4
Contribution of Government demand	1.4	1.3	1.1	1.2	1.2
Contribution of trade balance	-0.9	0.1	-0.3	0.1	-0.1
Bank loans (private) to GDP	40.1	59.6	56.2	58.5	60.7
Government debt to GDP	46.0	48.8	36.1	31.3	28.9
Private saving-investment balance to GDP	6.2	2.6	3.2	4.5	4.9
Government savings-investment balance to GDP	-1.1	-4.4	-3.1	-2.7	-2.7
Current account to GDP	5.0	-1.9	0.0	1.9	2.2
<i>of which: account of income and transfers</i>	1.4	1.2	1.2	1.2	1.1

Source: Department of Economic and Social Affairs Global Policy Model simulation results. See para. 45 above for assumptions.